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Follow-up to the Joint Inspection Unit report and the agreed conclusions of the twenty-sixth special session of the Trade and Development Board

UNCTAD: On track for delivering on sustainable development

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I. Introduction

1. The purpose of the present note is to inform on the implementation of the workplan for enhancing the management and administration of UNCTAD and outline how, together with the initiatives launched by the UNCTAD Secretary-General in 2014, the organization is on track towards delivering better results against its mandates.

II. Chronology of events and decisions

2. The Conference at its thirteenth session in 2012 in Doha (UNCTAD XIII) decided that: (a) the Trade and Development Board would meet in a special session six weeks after the official circulation of the document entitled "Review of management and administration in the United Nations Conference on Trade and Development (UNCTAD)" (JIU/REP/2012/1) in all official languages of the United Nations, in order to address the report and its contents and decide on ways for follow-up and effective implementation of the Board's decisions; (b) the annual sessions of the Trade and Development Board would consider and evaluate the progress of the implementation of decisions on the report and take action, as appropriate; and (c) in that regard, the Trade and Development Board would report on progress at the next Conference.

3. At the twenty-sixth special session of the Trade and Development Board (15 and 20 June 2012, 6 July 2012), the Board requested the secretariat to draft a workplan for further improving the management and administration of UNCTAD for consideration by member States at the fifty-ninth session of the Trade and Development Board. The Board also clarified in the decision that the draft workplan should take into account (a) elements raised by member States at the special session, including implementation of an integrated results-based management framework, enhanced monitoring and evaluation capacity, enhanced outreach and communications including with the Geneva-based missions, enhanced coordination of activities internally and externally including through improved processes and procedures, equitable geographic and gender representation, transparent and effective human resources management, an effective fundraising strategy and the possibility of the establishment of a non-earmarked trust fund; (b) the Joint Inspection Unit report; and (c) the UNCTAD management response. The secretariat should also ensure that the workplan would not affect the programmes and resources required for the implementation of the Doha Mandate.

4. At the fifty-ninth session of the Trade and Development Board (17–28 September 2012), the Board issued a decision requesting the secretariat to enhance the management and administration of UNCTAD through the implementation of the workplan presented at the session and based on the Trade and Development Board's deliberations at its fifty-ninth session under agenda item 12. The Board also requested a comprehensive progress report on the implementation of the workplan at the sixtieth session, as well as updates before the session. At the sixtieth session, the Trade and Development Board considered the progress report, and the secretariat was requested to continue to enhance the management and administration of UNCTAD through the implementation of the workplan and to report back at the next session of the Board.

5. At the sixty-first session, the Secretary-General of UNCTAD expressed his conviction that positive change was good for the organization and reiterated his commitment to ensuring full implementation of the workplan. He also launched additional initiatives aimed at building a stronger UNCTAD.

6. Prior to the sessions of the Board, the secretariat occasionally provided updates to member States on the implementation of the workplan at the consultations of the President of the Trade and Development Board. Furthermore, bilateral meetings between the Secretary-General of UNCTAD and/or the Deputy Secretary-General with member State representatives and regional groups included briefings on progress made and plans for internal improvements.

III. UNCTAD: On track for delivering on sustainable development

A. Mainstreaming a focus on results: An integrated results-based management framework and enhanced monitoring and evaluation capacity

7. In the workplan endorsed by the Board, the secretariat undertook to reinforce its efforts on results-based management (RBM) through the preparation of a document outlining an improved and better-integrated RBM framework, followed by its operationalization. An RBM manual for technical cooperation with a focus on the design of UNCTAD projects and the use of extrabudgetary resources was also planned, in addition to conducting training on the guidelines, and tasking the UNCTAD Project Review Committee to ensure that all new project documents comply with a results-based approach.

8. The mainstreaming of RBM into the work of UNCTAD is one of the priorities of the Secretary-General of UNCTAD. He is committed to enhancing the focus on results in how the secretariat conducts its work as a means of promoting more effective delivery against UNCTAD's mandates. In this regard, several actions have been undertaken since 2012.

9. An RBM framework for UNCTAD was mapped out and issued in April 2013 that set out the building blocks for a more integrated RBM approach for the UNCTAD secretariat. A RBM manual for technical cooperation, focused on the design of UNCTAD projects and the use of extrabudgetary resources, was developed. The UNCTAD Project Review Committee is working to ensure that all new project documents comply with a results-based approach.

10. The Secretary-General announced in September 2014 the creation of a Results-based Management Coordination Group, which acts as the main driver of efforts in this direction. The Coordination Group is a working group under the authority of the senior management team and is tasked with (a) providing dedicated attention to RBM implementation within UNCTAD and (b) promoting the mainstreaming of RBM into daily managerial decision-making. The Coordination Group has adopted an ambitious agenda including a progressive revision of the logical frameworks of all subprogrammes, the introduction of common workplan formats and of guidelines for follow-up on the results of publications. In the last quarter of 2015, preparation of the 2018–2019 biennial programme plan will commence, and the secretariat expects to introduce improvements to the formulations of the logical frameworks of subprogrammes within the plan on the basis of the work of the Results-based Management Coordination Group.

11. A training session on RBM, organized in conjunction with the United Nations System Staff College, took place in October 2014 with over 20 UNCTAD staff members representing all divisions and offices. The training session received the full support and attention of senior managers and was another important step towards increasing awareness and RBM capacity at various levels. Another training session is planned for 2015 that aims at further enabling staff to mainstream RBM into their work.

12. A programme officer position has been dedicated to RBM activities. It is expected to provide specialized attention and support to programme managers for the mainstreaming of RBM. The selection process is ongoing, and the programme officer is expected to take up functions within the Office of the Secretary-General before the third quarter of 2015.

13. Strong monitoring and evaluation functions are key components of an effective RBM approach. Through both ongoing monitoring and periodic evaluations, information about results achieved and the contribution being made by the programme to the expected results is obtained, which can contribute towards improving the design and delivery of programmes. Reporting on the levels of performance achieved also form part of the accountability process.

14. UNCTAD began implementing a set of measures to enhance the delivery of its monitoring and evaluation functions. The measures include conducting a systematic evaluation of each component of the UNCTAD programme of work, thus ensuring due oversight of the programmes, while enabling wider learning on how well the measures are working and what results they have yielded. For instance, since 2013, the annual evaluation plan of the secretariat has included an external evaluation of an UNCTAD subprogramme that is considered by the Working Party, which facilitates learning about the performance of the subprogramme in relation to its mandates.

15. There has also been an increased number of evaluations undertaken each year, with double the number of evaluations completed in 2014–2015 compared to five years ago. Improved dissemination of evaluation reports has been under way with continuous updating of the dedicated webpages on evaluation on the UNCTAD website as new reports become available. Use of the UNCTAD intranet in disseminating evaluation products will also be further explored to better promote internal learning. In addition, at the sessions of the Working Party on technical cooperation, member States are presented with a report that contains an overview of key findings, conclusions and recommendations from external evaluations that were conducted in the previous year. Finally, efforts are being made to strengthen self-assessment capacities. For example, a series of briefs prepared by the Evaluation and Monitoring Unit has been developed that serves three aims: to operationalize the UNCTAD Evaluation Policy; to promote a better understanding of evaluation and self-assessment approaches and methods; and to support self-assessments.

16. As reported in 2014, a review of the evaluation capacity and practices of every entity in the United Nations Secretariat by the Office of Internal Oversight Services concluded that UNCTAD had all the components and practices in place for the conduct of credible and reliable evaluation. It is expected that enhancements to the monitoring and evaluation functions will continue, as appropriate, and further contribute towards the secretariat's efforts to manage for better results.

17. Initial foundations have been put in place for a robust RBM approach that grounds the way the secretariat is conducting its work. It is a continuous work in progress, and the UNCTAD Secretary-General is directly overseeing the process to ensure results on this front.

B. Fostering closer engagement with UNCTAD stakeholders: Enhancing outreach and communications, including with Geneva-based missions

18. The UNCTAD Secretary-General has stated that strengthening the relevance and impact of UNCTAD's work will require the organization to have a much deeper engagement with its member States, first and foremost, and also with other key stakeholders such as civil society, parliamentarians, the private sector and academia. Actions taken in this regard have included the initiatives mapped out in the UNCTAD

communications strategy, regular briefings and consultations with member States in Geneva, and conducting closer dialogues with key stakeholders, as described in the following paragraphs.

19. In the workplan, the secretariat undertook to continue its enhancements of outreach and communications in accordance with the UNCTAD communications strategy that was approved by the Trade and Development Board in 2009. During the review of the implementation of the communications strategy at the seventieth session of the Working Party in March 2015, the secretariat reported that key areas of progress included increased use and reach of digital communications and social media, the delivery of tailored products for delegates, journalists and civil society, and improved internal coordination and planning of communications efforts. For instance, UNCTAD regularly tweets news, publications and information on events, which have increasingly been picked up and shared by other United Nations and international organizations, member States, civil society, media and academia. As a result, the UNCTAD Twitter account has registered a 115 per cent increase in followers since June 2014. Within the secretariat, staff from all divisions have been engaged through weekly meetings of the Communications Group in addressing and ensuring coordination of various communications issues and activities. One specific output of this group has been the well-received weekly newsletter *What's New?*, which delivers concise information on current UNCTAD events and developments.

20. As regards system-wide communications efforts, UNCTAD contributes to and supports relevant major United Nations information and communications initiatives. This includes, for instance, the 2014 and 2015 communications and advocacy strategy outlined by the United Nations Department of Public Information, which aims at creating and sustaining momentum and at uniting the United Nations system under the slogan "2015 – Time for Global Action". The strategy covers key events on the United Nations calendar such as the final push towards achieving the Millennium Development Goals, a new financing for development framework, the establishment of new sustainable development goals and a climate agreement.

21. With a view to further strengthening outreach to member States, the Delegates Portal was launched in December 2012. The Portal provides delegates with additional information that is not accessible to the public, as well as allowing access to an interactive calendar of meetings and events. In particular, the Portal is an important conduit of information to delegates on all documents and preparations leading up to the fourteenth session of the United Nations Conference of Trade and Development (UNCTAD XIV), as well as for other meetings with restricted documentation. Consultations with the President of the Board have been held monthly, and follow-up is ensured between sessions by the Intergovernmental Support Service in collaboration with the regional coordinators of member State groupings and the substantive divisions of UNCTAD. The topics covered by the consultations have been wide-ranging, including substantive briefings on forthcoming meetings and on publications-related matters.

22. Aimed at proactively engaging in informal, open and inclusive, multi-stakeholder dialogue with key constituents such as member States, international organizations, private sector and civil society, the Secretary-General launched the Geneva Dialogues. The Dialogues are intended to harness the collective expertise in Geneva to better appreciate mutual interests and to sharpen the policy dialogue. The Dialogues have also helped feed into the New York process of setting the post-2015 development agenda. Three sessions of the Geneva Dialogues have been held since 2013, and additional Dialogues are forthcoming. Importantly, the Secretary-General and the new Deputy Secretary-General have also continued the practice of fostering close engagement with Permanent Representatives and member States in Geneva, Switzerland, through regular breakfast and/or bilateral meetings, which have allowed open and informal exchanges of views.

23. Outside of Geneva, the UNCTAD New York Office has been strengthened and proactively promotes the work of UNCTAD by organizing briefings, side events and bilateral meetings with Member States and other stakeholders. The Office also reaches out to the United Nations community, media, academia, non-governmental organizations and civil society representatives by announcing publications of reports, hosting of events and generally disseminating written and oral information on UNCTAD's role, mandate and programmes. As an essential bridge between UNCTAD headquarters in Geneva and United Nations Headquarters, the Office ensures coordination with United Nations bodies, organs and specialized agencies with a view to reflecting the priorities of UNCTAD member States and exploiting synergies, especially during the discussions on the post-2015 development agenda, the third International Conference on Financing for Development and the sovereign debt restructuring processes.

24. Finally, the Secretary-General has also sought to enhance engagement with UNCTAD staff. Towards this end, a number of informal mechanisms were initiated to foster an open and personal exchange of views, for instance, through biannual town hall meetings, brown-bag lunches with different categories of staff or on a one-to-one basis. Staff members thus have the opportunity to engage in candid discussions on a more frequent basis not only with the Secretary-General, but also with other colleagues. Likewise, the new Deputy Secretary-General has been holding meetings with staff in small groups in order to interact personally with staff members.

25. Progress has been made on several fronts with regard to building stronger partnerships with our key stakeholders. The secretariat recognizes that better results could still be garnered, for instance, through more effective communication of policy messages from its publications to national and regional policymakers. Measures towards continuous improvement on this front will be further explored.

C. Enhanced internal and external coordination of activities and delivering better results at the national and regional levels

26. On internal coordination, UNCTAD's senior management team continue to meet regularly to oversee the activities of the organization. In addition, interdivisional task forces on UNCTAD's contribution to the post-2015 development agenda, the third International Conference on Financing for Development, the sessions of the Trade and Development Board, as well as on joint research, have continued to be a standard working modality for cross-cutting deliverables. To this end, the Trade and Development Commission, the Investment, Enterprise and Development Commission, the Public Symposium and a growing number of expert meetings are being organized and serviced by more than one division. There have been regular meetings of the Publications Committee, the Communications Group and the Project Review Committee, all of which have sought to ensure coordination and coherence of UNCTAD's products and messages. In addition, a new UNCTAD intranet website was launched in 2014 that contributes towards enhancing internal processes for the way the secretariat conducts its work, in addition to improving internal communications and coordination. Features include highlights on substantive activities, internal news and announcements, practical information to facilitate work processes, and a technical platform that enables document management and workflow automation.

27. Progress is also being made in the area of external coordination. The Secretary-General stated in 2013 that he would seek to strengthen UNCTAD's collaboration with sister agencies to make its messages better heard where it matters most, namely at the country level. To this end, UNCTAD has continued to foster effective collaborations with

United Nations system and other organizations in recent years to ensure policy coherence in the management of economic and social activities of the United Nations.

28. The secretariat has established and met targets for an increase in the number of joint activities that it delivers within a biennium. A total of 54 joint outputs were completed during the 2012–2013 biennium, covering all areas of the five UNCTAD subprogrammes. For the 2014–2015 biennium, the secretariat is on track to exceed that total, with 28 joint outputs already reported in December 2014. These joint outputs include, for example, (a) a collaboration with the Economic Commission for Latin America and the Caribbean, Organization for Economic Cooperation and Development, El Colegio de México, El Colegio de la Frontera Norte, Inter-American Development Bank and World Trade Institute, in servicing the Third Conference of the Latin American Network for Research in Services; (b) joint work with the Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development and World Bank on piloting and field-testing the Principles for Responsible Agricultural Investment; (c) continued collaboration with the Department of Economic and Social Affairs and United Nations regional commissions to publish the annual *World Economic Situation and Prospects* report, as well as collaborations with the Department of Economic and Social Affairs and other Secretariat entities on *The Millennium Development Goals Report 2014* and the *MDG Gap Task Force Report 2014*, entitled *The State of the Global Partnership for Development*; and (d) work of the UNCTAD Automated System for Customs Data programme initiated with the World Trade Organization (WTO) to develop data extraction tools for statistical purposes to enable WTO member countries to use the Automated System for Customs Data to comply with WTO requirements.

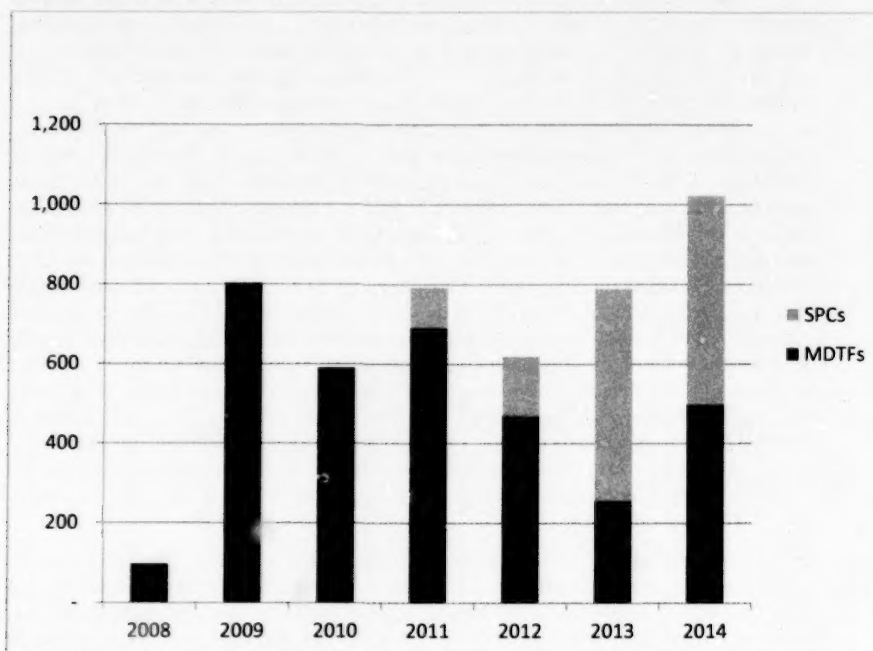
29. The number of collaborations between UNCTAD and other international organizations is expected to increase. For instance, nine memorandums of understanding have been signed to date during 2014–2015, which is double the number of memorandums of understanding signed during 2012–2013. One specific example is a memorandum of understanding signed in 2015 with the International Trade Centre and United Nations Economic Commission for Europe aimed at strengthening the partnership in providing technical assistance to developing countries to support the implementation of the WTO Agreement on Trade Facilitation.

30. Moreover, by leading the United Nations Inter-Agency Cluster on Trade and Productive Capacity, the UNCTAD secretariat made continued efforts to implement system-wide coherence at the country level and to contribute towards ensuring non-duplication, efficiency and greater development impact, in particular for technical assistance activities. Since its establishment in April 2007, the Inter-Agency Cluster on Trade and Productive Capacity has successfully pursued three main goals: (a) strengthening the role of trade and productive capacities in the integrated technical assistance delivered by the United Nations; (b) ensuring inter-agency coordination within “Delivering as one”; and (c) increasing the links between non-resident agencies and United Nations country offices.

31. In 2014, the Inter-Agency Cluster was delivering 36 programmes developed worldwide in Africa (11 programmes), Arab States (3), Asia (7), Latin America and the Caribbean (4), and Europe and Central Asia (11). In particular, UNCTAD is increasingly being recognized at the country level as a reliable partner, bringing added value to joint programmes on policy issues in which trade has a significant role to play. To this end, UNCTAD’s access to both multi-donor trust funds and specific partner contributions has been increasing, from contributions of \$97,000 in 2008 to just over \$1 million in 2014 (see figure).

Increasing financial support for UNCTAD technical assistance through "Delivering as one" funding mechanisms

(In thousands of United States dollars)



Source: UNCTAD calculations, 2015.

Abbreviations: SPCs, specific partner contributions; MDTFs, multi-donor trust funds.

32. Furthermore, under the auspices of the Inter-Agency Cluster, UNCTAD launched initiatives on joint funding issues and inter-agency policy matters in 2014. For instance, UNCTAD initiated a process to review its collaborations with the Inter-Agency Cluster's core agencies focused on identifying high-level common policy orientations. The initiative led to the signing on 4 December 2014 of a memorandum of understanding with the International Labour Organization. The memorandum of understanding aims at supporting the development of joint policy orientations and related translation to inter-agency operations for more coherence and impact at the country level. The memorandum of understanding is expected to deepen the UNCTAD–International Labour Organization collaboration in the context of the post-2015 development agenda. Joint policy recommendations are expected to lead to increased legitimacy to meet the pressing needs of Governments on priority themes, such as trade and employment, which require comprehensive solutions.

33. Finally, in keeping with the Secretary-General's call to enhance the resonance of UNCTAD's work at the national and regional levels, the secretariat announced that an interregional adviser to be based in Addis Ababa would be appointed. The Adviser took up functions on 1 July 2015 and is now operating in the region. The Adviser will, among other responsibilities, provide high-level technical expertise and advisory services to African countries and regional organizations, take a leading role in translating research and analysis outputs into policy options and concrete advice, and respond promptly to requests from member States for advice on urgent policy-related problems and current development issues.

of importance for developing countries. Having a physical presence on the ground and in the region will contribute towards ensuring that UNCTAD's work is readily accessible to its constituents in Africa, as well as allow more effective dissemination of the policy messages from its research publications. This is a pilot initiative that may be replicated in other regions, as appropriate, subject to the results attained and availability of resources.

34. The Secretary-General has placed emphasis on making UNCTAD a communicating organization and achieving impact at the national and regional policymaking levels. The secretariat continues to explore and test ways and means to get a better sense of the policy advice needs of UNCTAD constituencies and to translate its work into practical advice to be disseminated accordingly. Ensuring better linkages between UNCTAD research outputs, its technical assistance work, in particular through advisory services, and its consensus-building work will enhance synergies among the three pillars and contribute to getting better results.

D. Strengthening internal accountability, including transparent and effective human resources management

35. General Assembly resolution 64/259 defined accountability as "the obligation of the Secretariat and its staff members to be answerable for all decisions made and actions taken by them, and to be responsible for honouring their commitments, without qualification or exception". This includes "achieving objectives and high-quality results in a timely and cost-effective manner, in fully implementing and delivering on all mandates to the Secretariat approved by the United Nations intergovernmental bodies and other subsidiary organs established by them in compliance with all resolutions, regulations, rules and ethical standards; truthful, objective, accurate and timely reporting on performance results; responsible stewardship of funds and resources; all aspects of performance, including a clearly defined system of rewards and sanctions; and with due recognition to the important role of the oversight bodies and in full compliance with accepted recommendations".

36. Against this background, as a programme within the United Nations Secretariat, UNCTAD is subject to its accountability framework and mechanisms such as the senior manager's compact that the United Nations Secretary-General establishes with each executive head, the rules, policies and procedures governing human resources, finance and programme management, and also periodic reviews by oversight bodies such as the Office of Internal Oversight Services (OIOS), the Board of Auditors and the Joint Inspection Unit.

37. In addition, in light of the UNCTAD Secretary-General's wish to sustain the momentum for a culture of continuous improvement, compacts for the heads of all divisions have been launched on a pilot basis. The compacts contain specific management objectives for a given year, with measurable deliverables and clear timelines, and include targets in the areas of interdivisional and inter-agency cooperation, responsible management of financial resources, human resources management and special objectives related to timely submission of documents, internal communications and staff development. It is anticipated that the compacts will serve to promote a collaborative approach towards the initiatives introduced to strengthen the organization and allow clear accountability against reform objectives.

38. Governance instruments, internal systems and controls, as well as oversight mechanisms are thus in place. In fact, recent audits by OIOS have concluded that overall, the secretariat remains fully compliant with applicable rules and procedures in the areas covered by the audits, and only a handful of recommendations were issued in areas where weaknesses were identified. Notably, there are currently a total of 5 recommendations from

OIOS for implementation by the secretariat, compared to over 30 recommendations in 2010.

39. This outcome is perhaps a reflection of the active measures undertaken in recent years by the UNCTAD secretariat to improve the human resources management function and ensure better checks and balances, particularly in relation to selection processes. For instance, the secretariat has developed and conducted training for hiring managers. The training serves to strengthen the effectiveness of human resources management by ensuring that all applicable procedures are well known by managers and are followed accurately. Furthermore, the UNCTAD career web page was launched on 1 May 2013, following its redesign into a more functional and user-friendly tool to improve information sharing with member States, as requested during the fifty-ninth session of the Trade and Development Board held in September 2012 and reflected in the workplan. The role of the UNCTAD Focal Point for Women and Alternate was strengthened through better definition of functions and responsibilities. The Focal Point for Women and Alternate continue to exercise their functions, in particular by actively participating in an advisory capacity in selection processes.

40. Developments at the United Nations Secretariat level will also contribute towards more effective, transparent and strategic human resource management at UNCTAD. For example, since November 2014, UNCTAD processes the recruitment of consultants and individual contractors through Inspira, the platform used by the United Nations Secretariat to recruit its personnel. Inspira will allow hiring managers to access a pool of self-registered consultants, as well as clarify workflows, thus enhancing transparency and effectiveness in the management of this aspect of UNCTAD human resources. In the context of the enterprise resource planning project, called Umoja, to be implemented in Geneva in November 2015, processes and procedures will be further revised and improvements achieved.

41. To enhance transparency vis-à-vis member States on human resources management issues, UNCTAD has been presenting information on key human resources indicators, including UNCTAD's staffing situation, progress in improving geographical and gender balance, information on the representation of member States and statistics on the applications received for UNCTAD posts at the December sessions of the Working Party. The secretariat is monitoring the situation and will continue to provide member States with these indicators annually.

E. Establishment of a general trust fund and an effective fundraising strategy

42. In the workplan, the secretariat noted that the establishment of a general trust fund would be welcomed and undertook to draft a proposal on the possibility of establishing such a trust fund. The proposal was shared with member States in July 2013. The UNCTAD secretariat received approval from the United Nations Controller for the operationalization of a general trust fund, known as the "Trust fund for the support to the activities of UNCTAD", as of 1 September 2013.

43. The trust fund can receive both earmarked and non-earmarked contributions that may be managed as sub-accounts or projects, in accordance with agreements with donors. The advantage of the general trust fund is that, unlike a technical cooperation trust fund, contributions to the general trust fund can also support UNCTAD research and analysis, as well as the other two pillars of work, in line with the work programme. The flexible nature of the trust fund – while not detracting from a donor's prerogative to oversee contributions – is an advantage in facilitating better responsiveness to needs and emerging

issues. Two projects are currently being implemented under this trust fund: one on data collection on non-tariff measures for Trans-Pacific Partnership countries, and another that supports the work of the ad hoc committee on a multilateral legal framework for sovereign debt restructuring processes.

44. In the workplan, the secretariat noted that an effective fundraising strategy was fully in line with the Secretary-General's efforts to strengthen UNCTAD and undertook to develop a draft fundraising strategy for consideration. The draft UNCTAD fundraising strategy for technical cooperation activities (UNCTAD/OSG/MISC/2013/1) was circulated as a non-paper to member States on 22 March 2013. The document indicates principles and objectives for UNCTAD fundraising and aims at providing the basis for the development of a consistent, coherent and efficient fundraising strategy. The main objectives as spelled out in the document are as follows: ensure efficiency in the management and delivery of technical cooperation; strengthen support from traditional donors; broaden the donor base; raise awareness and improve outreach; and strengthen inter-agency cooperation for joint fundraising in the context of United Nations system-wide coherence.

45. At its sixtieth session, held in September 2013, the Trade and Development Board took note of the draft UNCTAD fundraising strategy for technical cooperation, recognized its importance and looked forward to its further consideration and improvement in a formal setting to ensure that fundraising efforts led to the necessary levels of resources to meet the increasing demand for technical cooperation. At the sixty-seventh session of the Working Party, member States further considered the draft UNCTAD fundraising strategy. The outcome of the discussions was that the regional coordinators would propose a set of common goals and principles for the draft fundraising strategy. At the sixty-ninth session of the Working Party in December 2014, member States agreed to continue their consultations with a view to finalizing the strategy at the earliest possible date. The secretariat stands ready to continue to engage with member States on ensuring the development of an effective fundraising strategy.

IV. Conclusion

46. Since 2012, several measures have been implemented or put in place to enhance the management and administration of UNCTAD. Those initial enhancements were amplified when the current UNCTAD Secretary-General came on board in 2013. In his first opening remarks to the Board in September 2013, he noted that while UNCTAD's role as an advocate for inclusive and sustainable development was undoubted, he recognized that there were certain changes the institution should undertake to become better fit for purpose. He remains fully committed to driving those changes in order to ensure that UNCTAD effectively delivers on its mandate. Recognizing that the strength of the institution is grounded in the strong support of its member States, the Secretary-General looks forward to the continuing support of member States in working together to enhance the effective delivery of the organization's mandate.



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Multilateral processes for managing sovereign external debt

Development strategies in a globalized world: Multilateral processes for managing sovereign external debt

Note by the UNCTAD secretariat

Executive summary

The present document summarizes the main aspects of the analysis of the external debt situation of developing countries and countries with economies in transition, as presented in chapter V of the forthcoming *Trade and Development Report 2015*. It provides a brief overview of the core issues in the external debt of developing countries, and reviews the main trends in the evolution of external debt indicators and composition. It then analyses the underlying causes of the debt crises of developing countries in the world economy today, and discusses essential features and limitations of the current fragmented system of sovereign debt restructuring. Finally, it discusses different proposals to enhance sovereign debt restructuring mechanisms, in particular a multilaterally based statutory approach.



I. External debt: Main issues

1. The present document addresses a long-standing deficiency in the international monetary and financial system, namely the lack of an effective mechanism to help better manage external debt crises. It pays particular attention to sovereign debt since, even when financial crises originate in the private sector, as often occurs, they usually result in public overindebtedness and a prolonged period of economic and social distress. Estimates vary, though a recent paper by the International Monetary Fund (IMF) found that such a crisis had eliminated 5 to 10 percentage points from current growth figures and that after eight years, output was still lower than country trends by some 10 per cent.¹ International awareness of the need to consider more effective approaches to sovereign debt resolution has grown in recent years, as evidenced by a series of United Nations conferences and resolutions.²

2. In the last eight major crises in emerging economies (beginning with Mexico in 1994, followed by Thailand, Indonesia, the Republic of Korea, the Russian Federation, Brazil, Turkey and, finally, Argentina, in 2001), a significant proportion of the private debt, both domestic and external, was socialized through Government bailouts, often through a recapitalization of insolvent banks, which increased sovereign debt levels. Much the same pattern has been repeated in Ireland and Spain during the recent crisis in the eurozone.

3. External debt is not a problem in itself. Indeed, debt instruments are an important element of any financing strategy. Yet it can easily become a problem when foreign borrowing is unrelated to productive investment, or when a net debtor country is hit by a severe external shock that undermines its capacity to repay its debt. In such circumstances, the claims on a debtor can quickly exceed its ability to generate the required resources. If these claims are not matched by new credit inflows, servicing the external debt amounts to a transfer of resources to the rest of the world, which, if significant, will reduce domestic spending and growth in the debtor country. This, in turn, may eventually affect the country's ability to make payments when they fall due.

4. High levels of external debt have diverse causes and dissimilar impacts in different groups of economies. In most low-income countries, they are the result of chronic current account deficits, primarily reflecting limited export capacities and a high degree of dependence on imports for both consumption and investment purposes. Most of the capital inflows that have had a direct debt-generating effect on these economies have come from official sources. By contrast, in several middle-income countries that are much more integrated into the international financial system, a core driver of the accumulation of large stocks of external debt has been their increasingly easy access to international financial markets and private creditors since the mid-1970s. A significant proportion of the private capital flows to these countries exceeded those required to finance current account deficits and ended up as residents' private capital outflows or reserve accumulation by a central bank.

5. The sustainability of an external debt burden depends on the relationship between the growth of domestic income and export earnings, as well as on the average interest rate and maturity profile of the debt stock. Thus, to the extent that foreign capital inflows are used for expanding production capacities, they contribute to boosting domestic income and export earnings that are required to service the debt. However, where external debt primarily results from large surges in private capital inflows relative to a country's gross

¹ D Furceri and A Zdzenicka, 2011, How costly are debt crises? Working Paper 11/280, IMF.

² See for example General Assembly resolutions 64/191, 65/144, 66/189, 67/198, 68/202 and 68/304.

domestic product and if those inflows are unrelated to current needs for the financing of trade and investment, they can lead to asset bubbles, currency overvaluation, superfluous imports and macroeconomic instability, thereby increasing the risk of default.

6. The sustainability of external debt also depends on its structure and composition. The commonly used definition of gross external debt (including in the present document) adopts the residence criterion, which refers to non-resident claims on the resources of the debtor economy. Other criteria used to distinguish between domestic and external debt are whether the debt is denominated in domestic or foreign currency and the jurisdiction under which the debt is issued. When most external debt consisted of loans, the criteria of residence, currency and jurisdiction tended to coincide (i.e. the lender was non-resident and the loan was issued in a foreign currency under foreign law). This has changed significantly since the early 1990s. Over the past two decades, increases in the stock of outstanding debt have been accompanied by a shift in debt instruments from syndicated bank loans to more liquid bond debt. Since bonds issued in a local currency and under local law may be held by foreign investors and, conversely, sovereign debt denominated in foreign currency may be held by residents, there is a share of debt that may be considered external under some criteria and domestic under others.

7. The amount of debt that has been issued in foreign currencies will significantly affect debt sustainability. This is because, in order to service such debt, a debtor must not only generate the required income but also obtain the corresponding foreign exchange. This depends on the state of a country's balance of payments. However, it can also produce a significant policy dilemma, whereby domestic currency devaluations and tight macroeconomic policies, while intended to improve export performance, will also increase the real value of the foreign denominated debt and reduce the debtor's income.

8. In mostly higher income developing countries, a recent trend has been a shift in the denomination of external debt from foreign currency to local currency. This has been made possible largely as a result of a strong expansion of global liquidity and concomitant surges of capital inflows into these economies, reflecting the willingness of lenders to assume the exchange rate risk. Yet the residence criterion remains relevant for debt sustainability, as investments in local bonds and securities by non-residents make domestic debt markets more liquid. Moreover, growing non-resident participation in these markets also means less stability in holdings relative to participation by domestic institutional investors, as the latter are usually subject to regulations that oblige them to hold a given percentage of their assets in local debt instruments. The decision by non-resident creditors to liquidate their local currency denominated debt and repatriate their earnings could weigh heavily on the host country's balance of payments.

9. Finally, the jurisdiction of debt issuance affects debt sustainability, since it defines the rules under which any dispute between debtors and creditors will be negotiated, such as the extent to which non-cooperative creditors will be allowed to disrupt State-private creditor majority agreements on debt resolution. More generally, if the external debt of developing countries has mostly been issued under foreign jurisdictions as a supplementary guarantee for investors that are distrustful of the judicial system of the debtor country, this has the potential to complicate crisis situations, since the debtor economy may have to contend with multiple jurisdictions and legal frameworks.

10. Sovereign debt deserves special attention for a number of reasons. In some instances, Governments may encounter difficulties in servicing the external debts they have incurred to finance their public expenditures. In many other instances, however, the initial cause of a sovereign debt crisis is the imprudent behaviour of private agents, on the side of both borrowers and creditors. In principle, a private debtor's defaults on its external debt fall under the insolvency law of the jurisdiction in which the debt was incurred. This legal framework typically provides for a certain degree of debtor protection and debt

restructuring (with or without a partial debt write-off) or for a debtor's bankruptcy and subsequent liquidation of its assets. Yet when a series of private defaults threatens to disrupt the financial system, the public sector often assumes private debt, especially that of large banks, and as a consequence becomes overindebted itself.

11. However, sovereign debt problems are not subject to the legislation that governs private defaults. They therefore necessitate specific treatment, not least because they often have significant social, economic and political impacts. This raises the question of how best to approach sovereign debt restructuring in an increasingly globalized economy, which is addressed in chapter IV of the present document.

II. External debt: Main trends in volume and composition

A. Total external debt in developing countries and countries with economies in transition

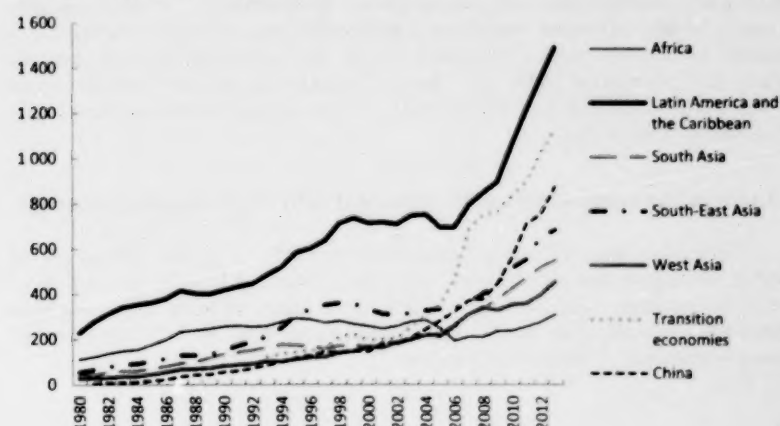
12. Measured in nominal terms (and according to the residence criterion), the external debt of developing countries and countries with economies in transition has displayed a rising trend in the long term. With the exception of Africa, which remained a less attractive market for private investors and greatly benefited from debt reduction programmes, all other regions exhibited a significantly higher debt stock by mid-2015 than in the 1990s (figure 1). This was not a steady trend, however. Latin America and South-East Asia – the two developing regions most integrated into the international financial system – had relatively more stable external debt levels between 1997–1998 and 2006–2007. This was the result of their own debt crises in the second half of the 1990s, which created a temporary restriction on their access to new private foreign credit. Yet it was also partly due to their subsequent efforts to reduce their dependence on capital inflows by avoiding recurrent current account deficits or even generating significant surpluses. This trend was again reversed with the global financial crisis in 2008, not least due to renewed high inflows of foreign capital driven by expansionary monetary policies in developed countries.

13. Measured as a share of gross domestic product or gross national income, external debt declined at varying rates in all developing regions from the late 1990s until the crisis in 2008 (figure 2). Thereafter, this debt ratio started to rise again. The reduction in the ratio of external debt to gross national income that developing countries and countries with economies in transition experienced in the years prior to the crisis was due to their robust economic growth, often coupled with real exchange rate appreciations that further raised the current dollar value of their gross national incomes.

14. In China and South Asia, the ratio of total external debt to gross national income declined steadily between 1993 and the mid-2000s, despite a non-negligible increase in their nominal external debt, albeit from low values. This was largely due to their very rapid economic growth. In China, this trend was reinforced by a shift from external to domestic borrowing. Other developing and transition regions have experienced significant fluctuations in external debt ratios since 1990, due to successive waves of capital inflows interrupted by financial crises.

15. The most significant reduction in the ratio of external debt to gross national income occurred in Africa, where it fell, on average, from more than 110 per cent in 1994 to below 20 per cent in 2013 (figure 2). In addition to growth acceleration in the 2000s, this region benefited more than any other from official debt relief programmes. This largely explains the diminishing weight of interest payments as a share of exports in this region from, on average, 13 per cent during the 1980s to around 1 per cent in 2012–2013. Other regions also saw a significant reduction over the same period.

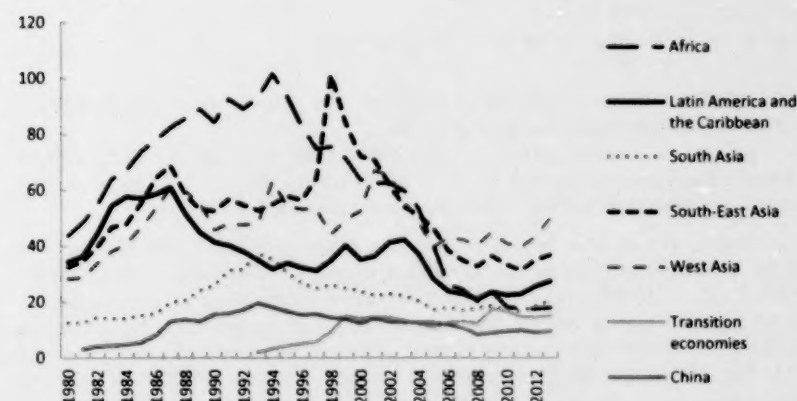
Figure 1
External debt in selected country groups and China, 1980–2013
 (Billions of current dollars)



Source: UNCTAD secretariat calculations, based on the World Bank World Development Indicators database and national sources.

Note: Aggregates are based on countries for which there is a full set of data since 1980, except for countries with economies in transition, for which data is available from 1993.

Figure 2
External debt stock as a proportion of gross national income,
selected country groups and China, 1980–2013
 (Percentage)



Source: UNCTAD secretariat calculations, based on UNCTADstat, the World Bank World Development Indicators database and national sources.

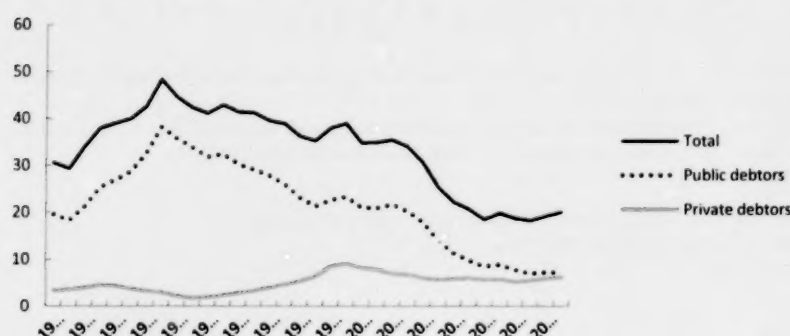
Note: Aggregates are based on countries for which there is a full set of data since 1980, except for countries with economies in transition, for which data is available from 1993.

16. While external debt ratios have been rising again, albeit slowly, since the late 2010s, historically low to moderate levels of the ratio, combined with overall falling interest payments on external debt since the late 1990s, might convey an impression of

macroeconomic robustness and stability. Yet such an outlook is premature. Recent episodes of turmoil in international financial markets – triggered by expectations of a winding down of quantitative easing in the United States of America and a normalization of interest rates in the country – have affected emerging economies.³ More generally, the recent excessive increase in liquidity in international financial markets that remains largely unconnected to long-term development finance, increasing foreign participation in growing domestic markets for Government debt, and foreign currency denominated private sector indebtedness, all combine to increase the exposure of developing countries to the volatility of international financial markets.

B. Changes in the composition of the external debt of developing countries

17. The relative share of external debt owed by public or private debtors has an important bearing on debt sustainability.⁴ Historically, public debt made up the bulk of external debt in developing countries. In 2000, for example, its share in the long-term external debt stocks of all developing countries was 72 per cent. By 2013, this share had declined to nearly half of the total stocks (figure 3).



Source: UNCTAD secretariat calculations, based on UNCTADstat, the World Bank World Development Indicators database and national sources.

Note: Aggregates are based on countries for which there is a full set of data since 1980, except for countries with economies in transition, for which data is available from 1993. As part of the total external debt is unspecified, public and private debts do not always add up to the total.

18. External private debt, by contrast, was historically quite limited and thus attracted little attention from oversight bodies. In addition, oversight bodies tended to be influenced by free market advocates who opposed Government intervention in growing private external liabilities, on the grounds that these resulted from the actions of rational agents with respect to private saving and investment-related decisions, and therefore would not lead to financial distress. However, experience – particularly in the aftermath of the global financial crisis when high levels of external private debt became a significant driver of public sector debt crises – has challenged the validity of such an approach. Policymakers should therefore not be too complacent about the overall lower levels of public debt in many developing economies. Rather, they should be wary of the significant risks to

³ See UNCTAD, 2014, The recent turmoil in emerging economies, Policy Brief No. 29.

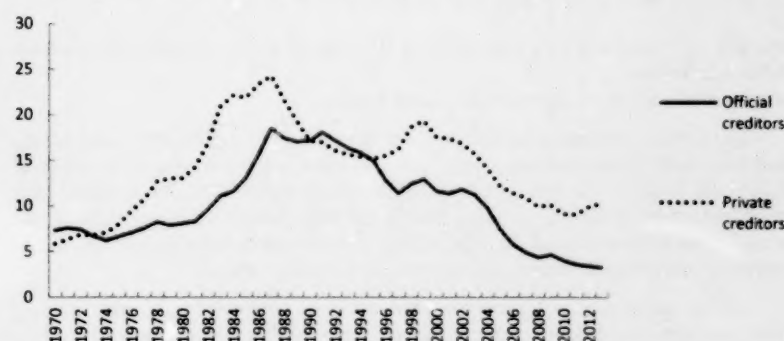
⁴ In the present document, public debt includes publicly guaranteed private debt and private debt only refers to non-publicly guaranteed private debt, following the classifications used for the international debt statistics of the World Bank.

financial stability associated with the increasing ratios of private external debt to gross national income (figure 3). This includes rising levels of private external borrowing by non-financial corporations over the past few years, primarily for purposes of financial operations via the offshore issuance of debt securities.⁵ It is compounded by exchange rate risks and the danger of sudden reversals of capital flows, for example in the wake of a normalization of United States interest rates and/or volatile commodity prices.

19. The structure of external debt has also evolved significantly on the side of creditors. In most developing countries, until the 1970s and sometimes in subsequent decades, a large proportion of long-term external debt was owed to official creditors mostly on a bilateral basis. In the early 1970s, in all regions other than Latin America, official external debt outpaced that owed to private creditors (figure 4). In recent years, the share of official debt in developing and emerging economies has remained below 20 per cent of the total external debt.⁶

Figure 4

Long-term external debt by type of creditor in developing countries, 1970–2013
(Percentage of gross national income)



Source: UNCTAD secretariat calculations, based on UNCTADstat and the World Bank International Debt Statistics database.

Note: Data refer to all year-end disbursed and outstanding debt.

20. The 1970s saw a sharp rise in the external debt of developing countries, largely due to Latin American borrowers, and with this a strong increase in debt owed to private creditors. Such debt, mostly in the form of syndicated bank loans, rose from 5 per cent of the gross national income of developing countries in 1970 to 12 per cent in 1980. Following the Volcker shock in 1979 and the Latin American debt crisis, a large share of this debt was transferred to the public sector. Similarly, prior to the Asian financial crisis of 1997, a significant proportion of the debt incurred in the region was in the form of bank loans to private borrowers that were de facto nationalized after the onset of the crisis. The Latin American debt crisis eventually saw private-debt-turned-public-debt replaced with Brady bonds. Most restructurings involving Brady bonds included the exchange of bank loans for bonds of either equal face value (but with a fixed and below market rate of interest) or lesser face value. The plan thus initiated a process of financial disintermediation, that is of

⁵ See S Avdjiev, M Chui and HS Shin, 2014, Non-financial corporations from emerging market economies and capital flows, *Bank for International Settlements Quarterly Review*, 4:67–77.

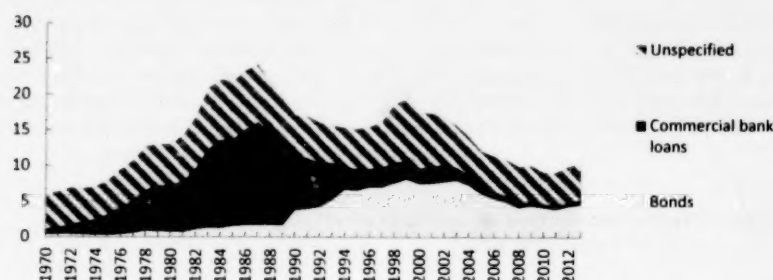
⁶ Y Akyüz, 2014, Internationalization of finance and changing vulnerabilities in emerging and developing economies, UNCTAD Discussion Paper No. 217.

more direct borrowing from capital markets via bonds instead of borrowing from commercial banks. This has been on an accelerating trend ever since (figure 5).

Figure 5

Long-term external debt of developing countries owed to private creditors, by type of debt, 1970–2013

(Percentage of gross national income)



Source: UNCTAD secretariat calculations, based on UNCTADstat and the World Bank International Debt Statistics database.

Note: Data refer to all year-end disbursed and outstanding debt.

21. The currency denomination of external debt significantly affects debt sustainability mainly because of the associated exchange rate risk, whereby a devaluation of the domestic currency will increase the real value of foreign denominated debt. By contrast, local currency debt reduces the risk resulting from a currency mismatch between debt on one hand and assets and revenues on the other. Moreover, in the latter instance, it is possible for the national central bank to intervene if an emergency situation arises.

22. Consequently, a growing number of developing economies have been shifting towards local currency denominated debt. Nevertheless, the drawbacks of foreign currency denominated debt remain a relevant issue, since a large proportion of the gross external debt of developing countries is still in the form of bank loans and official debt, and thus denominated in foreign currency. This occurs particularly in poorer developing countries with small domestic debt markets, a heavy dependence on official lending and low credit ratings, but also in some larger middle-income developing countries and countries with economies in transition. For example, in 2013, the share of external debt denominated in foreign currency was 95 per cent in Argentina, 93 per cent in Turkey, 80 per cent in India, 74 per cent in the Russian Federation, 70 per cent in the Republic of Korea and 64 per cent in Mexico.

23. Finally, the jurisdiction under which debt is issued is relevant once a default arises, because it defines the courts and the legislation under which a debt contract, and thus the process of debt restructuring, will ultimately be regulated. One study noted that in recent years, almost 50 per cent of sovereign defaults involved legal disputes abroad, compared with 5 per cent in the 1980s, and that 75 per cent of such litigation involved distressed debt funds, also known as vulture funds.⁷

⁷ J Schumacher, C Trebesch and H Enderlein, 2014, Sovereign defaults in court, Social Science Research Network, available at: <http://ssrn.com/abstract=2189997> (accessed 5 August 2015).

III. External debt crises and debt resolution

A. External debt crises: Main features

24. While the structural causes of developing country debt crises vary, recent crises have been closely linked to the rapid liberalization of financial markets, the intrinsic instabilities of these markets and the global financial cycles they have produced over the past few decades.⁸ Generally speaking, debt crises occur at specific junctures in financial cycles. They start when a significant number of debtors (or some large ones) are no longer able to service debt accumulated during an expansionary phase. As a result, risk perception shifts from overconfidence to extreme unease, leading to liquidity shortages, asset price collapses and an economic downturn. Eventual asset liquidations further depress the price of assets, in particular of those assets that were the primary object of speculation during the boom period and served as a guarantee for the debt. This not only causes the bankruptcy of highly indebted agents, but also affects more prudent agents who would be solvent in normal times. Once a debt crisis occurs, a potentially long process of financial consolidation must take place before the economy can begin to recover, lending can resume and an eventual exit from the crisis can be achieved.

25. The specificities of external debt, as discussed in chapter II, tend to increase the vulnerabilities associated with financial cycles. In many developing economies today, their increased openness to international financial markets is the main driver of the build-up of external debt and their concomitant exposure to high levels of risk of macroeconomic instability. In theory, openness to capital flows can have a countercyclical effect by allowing developing countries to borrow during economic slowdowns and repay during expansions. Yet this would require capital flows to respond passively to the demand from developing countries, and their use effectively for countercyclical purposes. In reality, push factors in developed economies, such as their monetary policies, risk perceptions and the leverage cycles of their banks, are often the driving forces. Indeed, all major waves of capital flows to developing countries since the mid-1970s have been prompted by expansionary monetary policies aimed at mitigating economic recessions in key developed countries.⁹ With limited credit demand and low interest rates in their own markets, financial institutions from developed countries have channelled part of their credit to developing or emerging economies in search of higher yields. These flows have frequently exceeded the amount that most developing countries could use productively.

26. Very high capital inflows entering relatively small economies have thus tended to generate domestic credit booms, strong asset price increases and currency appreciations. They have also facilitated sizeable imports of consumer goods and services, leading to current account deficits and indebtedness, particularly in the private sector. When economic conditions and risk perception in developed countries change or indebted developing countries experience repayment difficulties, capital movements can reverse suddenly and trigger external debt crises. Steep currency depreciations increase the value of external debt in the domestic currency, resulting in insolvency for those agents whose incomes are mainly denominated in the domestic currency and whose external liabilities are not matched by external assets. Widespread bankruptcies affecting the real and financial sectors of the economy typically prompt public sector interventions to contain the crisis, including through bailouts, emergency financing and countercyclical measures. As a result, external

⁸ See UNCTAD, 2014, and Y Akyüz, 2012, The boom in capital flows to developing countries: Will it go bust again? *Ekonomi-tek*, 1(1): 63–96.

⁹ Akyüz, 2012.

debt crises are often also fiscal crises, even where Governments have not engaged in extensive foreign borrowing during the boom period.

27. Private external debt defaults do not pose a specific problem; so long as the debt does not systematically affect the wider economy, managing private defaults only requires applying commercial law in the jurisdiction in which the debt was issued. By contrast, sovereign external debt problems present particular features that, in the event of a default, require specific arrangements to manage. The systemic issues raised by sovereign debt and default, and the legal and economic challenges they pose, are addressed in subsection B.

B. The existing system of sovereign debt restructuring: Main features and limitations

28. Given the considerable vulnerability of the financialized global economy to socially, politically and economically costly debt crises, national and international policymakers require appropriate instruments to handle crises in a way that minimizes such costs. In principle, debt resolution mechanisms should help prevent impending financial or debt crises when countries face difficulties in meeting their external obligations. They should pre-empt any sudden collapse of market confidence that has potentially catastrophic long-term consequences for the debtor economy. At the same time, such mechanisms should aim at a fair distribution of the burden of debt restructuring between debtors and creditors. Finally, they should respect national sovereignty and preserve domestic policy space in order to allow a debtor economy to grow, achieve improved debt sustainability and design and implement its own development strategies.

29. The current system of sovereign debt restructuring is highly fragmented and based on a range of ad hoc arrangements covering different procedures for different kinds of external sovereign debt.

30. The Paris Club, founded in the 1950s, provides the main negotiating forum for restructuring the official bilateral debt of its member States. Negotiations cover medium and long-term debt, including export credits whose terms exceed one year. For many years, the Paris Club did not consider debt sustainability to be a concern and excluded debt relief from its agenda. This changed in the late 1980s, when it began to consider special treatment for the debt of poor countries owed to official creditors. The terms offered to poor countries (Toronto terms, London terms, Naples terms and Cologne terms) have undergone a number of changes since then, culminating in the Evian terms in 2003, which also introduced explicit considerations of debt sustainability indicators (see <http://www.clubdeparis.org/sections/types-traitement/rechelonement>).

31. Multilateral institutions continue to play a key role in sovereign debt resolution, despite the fact that multilateral debts have generally been exempted from debt restructuring or relief. The involvement of IMF, the World Bank and multilateral development banks typically consists of providing exceptional financial assistance when voluntary private financing ceases or is no longer available. Consequently, these institutions have benefited from becoming preferred creditors. Their financing has often been conditional upon strict and comprehensive policy requirements originally intended to ensure that countries would be able to redress their imbalances and repay their loans. Therefore, securing a credit agreement with these institutions (particularly IMF) has generally been a precondition to negotiating debt restructuring or relief with other creditors.

32. The main exception to the rule that exempts multilateral debt from restructuring is the debt owed by poor countries, mainly through the Heavily Indebted Poor Countries Initiative launched in 1996 and enhanced in 1999. The original initiative was intended to provide the poorest countries with an exit from the repeated debt rescheduling process. In

June 2005, to supplement the multilateral debt relief under the Heavily Indebted Poor Countries Initiative, the Group of Eight proposed a Multilateral Debt Relief Initiative. This initiative provided for 100 per cent relief of the debt owed to IMF, the World Bank and the African Development Bank, as well as the International Development Association and the African Development Fund.

33. Overall debt restructuring with official creditors thus follows a pre-established procedure with little room for negotiation. This is in contrast to the treatment of sovereign debt with private creditors, which consists of bank loans and external bonds. Bank loans are subject to negotiations at the London Club, an informal group of international commercial banks established in 1976. When a sovereign debtor requests debt restructuring, a bank advisory committee is created through the London Club process, chaired by a lead bank whose main task is to coordinate the bargaining position of the creditors. Since the London Club does not establish binding resolutions or have defined voting procedures, agreements have sometimes required lengthy negotiations and free riders have posed a recurrent problem. Although the negotiation process allows considerable flexibility within the private law paradigm, it has maintained some links with negotiations on official bilateral and multilateral debt. For example, reaching a credit agreement with IMF is a *de facto* requirement for a Government seeking to restructure its debt with the London Club and, reciprocally, avoiding arrears in payments with private banks is a usual condition for signing an agreement with IMF. With regard to Paris Club agreements, commercial banks are normally asked to offer comparable treatment (i.e. debt relief) to that offered by official creditors.

34. The substantial shift from syndicated bank loans to external bond financing over the past two decades has significantly increased the complexity of debt restructuring. Thousands of bondholders with diverse interests may be faced with divergent regulatory constraints and bond series may be issued in different jurisdictions. Usually, informal negotiations with separate groups of bondholders take place before a debtor country eventually proposes bond swaps with lower face values, longer maturities and/or lower interest rates. Other basic characteristics of the bonds may also be altered; new bonds may be denominated in a different currency, may be subject to a different jurisdiction and may incorporate new clauses, such as collective action clauses. Bondholders then vote for or against accepting the swaps. If the original bonds included collective action clauses, a qualified majority may make the vote binding on all bondholders. If no such clauses were included or the required majority is not attained, creditors that have not accepted the swap (holdout bondholders or holdouts) may seek better terms or even full repayment through litigation. Increasingly, conventional bondholders are being replaced by specialized investors (including vulture funds) that are not interested in reaching a settlement but instead are seeking to obtain full payment through litigation.

35. This fragmented restructuring system for sovereign debt presents a number of risks and limitations, as detailed in the following subsections.

1. Too little, too late

36. It appears under the current system that neither debtor Governments nor creditors have an incentive to recognize a situation of overindebtedness and take early and comprehensive action.¹⁰ For debtor Governments, a major disincentive is the likelihood that declaring a debt moratorium will have a self-fulfilling effect by triggering an economic crisis. Furthermore, defaulting too early may be viewed by creditors as a strategic and

¹⁰ L.C. Buchheit, A. Gelpern, M. Gulati, U. Panizza, B. Weder di Mauro and J. Zettelmeyer, 2013, *Revisiting sovereign bankruptcy – Committee on International Economic Policy and Reform* (Brookings Institution, Washington, D.C.).

avoidable default aimed at lower debt servicing. Governments may wish to avoid the consequent reputational costs, which would result in lower access to credit. Creditors also have an interest in delaying explicit recognition of a solvency crisis, as opposed to a mere liquidity crisis, since, in the event of a solvency problem, no creditors can expect to recover their loans in full (except, to some extent, multilateral institutions with preferred creditor status). Private lenders therefore tend to initially minimize the extent of debt problems, a stance that has often been endorsed by IMF and other official creditors. The subsequent provision of emergency support to bridge liquidity shortages is then often used to repay private creditors that are more reluctant to renew credit lines, rather than to revive the economy.¹¹

2. Asymmetric and procyclical resolution processes

37. Unlike private firms, indebted States cannot be declared bankrupt. Ultimately, debt resolution processes therefore need to focus on a debtor economy's ability to recover as quickly as possible and on minimizing social, political and economic adjustment costs in the process. This requires a supportive international framework that provides the necessary policy space for a country to conduct countercyclical policies so that the debtor economy can restore its debt servicing capacity throughout investment, output and export growth rather than import contraction, and Government debt can be reduced through increasing public revenue rather than reducing expenditure.

38. The current international financial and monetary system is lacking in this regard, and is characterized by a contractionary bias. Thus, IMF standard credits under standby agreements typically include fiscal and monetary austerity measures. Subsequent IMF programmes have introduced structural reforms in addition to conventional macroeconomic adjustments as a new form of conditionality, yet in their various manifestations they have continued to focus on strict, contradictory measures. Arguably, such conditionalities have done little, if anything, to promote debt sustainability through growth, and have mostly been counterproductive. IMF has progressively noted errors in its policy conditionalities under crisis conditions, emphasizing that fiscal austerity during recessions is more costly than was previously assumed, as fiscal multipliers are higher, the assumption of a trade-off between public and private demand is questionable and public spending cuts are not automatically offset by higher private demand.¹² IMF has also recognized that its strict conditionality and a cumbersome process for delivering credit support were inappropriate for preventing or addressing external debt crises triggered by gyrations in the capital account. However, to date, its new credit lines have not been much used and do not address the situation of the most vulnerable countries, including those hit by an external debt crisis.¹³

3. The rise of non-cooperative creditor litigation

39. The widespread promotion of creditor rights and the rapid rise of bond financing in external debt markets has facilitated the emergence of highly speculative funds run by non-cooperative bondholders, including vulture funds. Their strategy consists of buying defaulted bonds at a significant discount and then aggressively suing Governments for

¹¹ To avoid such inefficient use of exceptional financing, the Articles of Agreement of IMF include a rule to the effect that "a member may not use the Fund's general resources to meet a large or sustained outflow of capital" (article VI). Since the 1980s, this rule has been repeatedly overlooked in the managing of sovereign debt crises.

¹² IMF, 2012, *World Economic Outlook* (Washington, D.C.).

¹³ Colombia, Mexico and Poland have applied for the Flexible Credit Line of IMF and the former Yugoslav Republic of Macedonia and Morocco have applied for the Precautionary and Liquidity Line.

repayment of their debts at face value plus interest, arrears and litigation costs, with gains of between 200 and 3,000 per cent. Holdout litigation has been particularly disruptive in the context of multilateral debt relief efforts aimed at reducing the external debt burden of heavily indebted poor countries.¹⁴ In practice, this kind of litigation has significantly eroded the (limited) fiscal space created by debt relief to alleviate poverty and foster economic development in these countries. At least 18 heavily indebted poor countries have been threatened with or subjected to legal actions by such creditors since 1999, leading to an (estimated) more than 50 lawsuits. The general trend by most courts to rule in favour of holdout litigator interests was recently highlighted by *Republic of Argentina v. NML Capital, Ltd.* In particular, the sitting judge interpreted the *pari passu* (equal treatment of all bondholders) clause as requiring Argentina to make rateable payments to all creditors. Argentina was thus no longer allowed to repay its restructured debt without simultaneously repaying NML Capital, Ltd. in full. The judgement also forbade any financial intermediary from collaborating with Argentina in paying exchange bondholders unless they were notified that the holdouts had received rateable payments. Such rulings make future debt restructurings even more difficult than they already are as they encourage creditors to not consent to debt restructuring agreements so that they can exercise more leverage to seek full repayment. In addition, those agreeing to a debt restructuring can no longer be certain they will be paid. Moreover, many such rulings show a blatant disregard for the sovereignty of the debtor, for third party interests and for the wider socioeconomic impacts they might have on a debtor economy.

4. The role of contingent liabilities in sovereign debt restructuring

40. Finally, another recent and growing area of concern deserves mention, namely the problem of contingent liabilities of a sovereign and their treatment in debt restructuring processes. Sovereign contingent liabilities refer mostly to third party debt guarantees. These are, almost by definition, not included in the public balance sheet precisely because they constitute liabilities contingent on the primary debtor's ability to service its debt. At the same time, this practice keeps the sovereign's official debt ratio low, thus facilitating its continued access to future borrowings. Preliminary evidence suggests that, since the global financial crisis, sovereign contingent liabilities have grown exponentially, though mostly in Western Europe.¹⁵ How these growing contingent liabilities may be included in sovereign debt restructuring is currently unclear.

IV. Alternative mechanisms for debt resolution

41. Concern with the lack of a resolution mechanism for external sovereign debt is not new (see for example the annex to chapter VI of *Trade and Development Report 1986*, chapter IV of *Trade and Development Report 1998* and chapter VI of *Trade and Development Report 2008*). Since the global financial crisis, there has once again been increasing recognition for the need to facilitate sovereign debt restructuring. At present, there are broadly three types of approaches to sovereign debt restructuring mechanisms, namely a market-based approach that centres on improvements of already existing mechanisms based on contract law and a primary focus on privately held sovereign debt; a semi-institutional approach that advocates the use of soft law international principles; and a

¹⁴ See the 2010 report of the independent expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights (A/HRC/14/21).

¹⁵ See LC Buchheit and GM Gulati, 2013, The gathering storm: Contingent liabilities in a sovereign debt restructuring, Social Science Research Network, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2292669 (accessed 5 August 2015).

statutory approach that aims for a comprehensive multilateral treaty to define internationally binding mechanisms.

42. These proposals differ in a number of key aspects, such as which types of debt are included, the degree of coordination and centralization needed for sovereign debt restructuring mechanisms and how participatory and transparent these should be, whether or not such mechanisms should include adjudication in cases where no voluntary agreement has been reached, and how consistent various debt restructuring outcomes should be.

A. Contractual or market-based approach

43. A number of prominent proposals to facilitate sovereign debt restructuring seek to maintain the integrity of existing market-based approaches by clarifying and strengthening their legal underpinnings, in particular by improving collective action clauses. Other proposals include contingent payment provisions and the clarification of the *pari passu* provision in debt contracts. Contingent payment is not primarily concerned with a sovereign debt restructuring mechanism itself, but introduces the provision that future payments by sovereign debtors should be made contingent on observable economic conditions, for example via the use of gross domestic product-indexed bonds or contingent-convertible bonds.

44. The main advantage of a market-based approach is that debt restructurings remain voluntary and, at least potentially, consensual. It also allows for gradual reform, as the widespread implementation of such contractual proposals might help to promote debt sustainability and reduce uncertainty about outcomes, preparing the ground for more far-reaching reforms.

45. However, collective action clauses also have some major limitations. Conventional single-series collective action clauses, requiring a qualified majority of bondholders of every single issue to give their consent, can easily be disabled by holdout creditors who buy a blocking minority. Aggregated collective action clauses, which require a twofold qualified majority – that of the holders of each bond issue as well as of the holders of all covered bond issues – can reduce, but not eliminate, the risk of such behaviour. Yet even the best single-limb collective action clauses that do not require voting by bond issue cannot guarantee that holdouts will not find ways to block the required consent. In the end, even third-generation single-limb collective action clauses remain structurally deficient.

46. Moreover, collective action clauses only apply to bond debt, and are of little help to a debtor State that has significant outstanding multilateral, bilateral or bank debt. In addition, a permanent concern is the risk of free riders taking advantage of the lack of coordination among different categories of creditors. Collective action clauses also adopt a narrow approach to sovereign debt issues. They do not prevent crises, nor do they provide the tools necessary for the resolution of crises. Finally, collective action clauses do not guarantee that the outcomes of negotiations – which will depend on the respective bargaining powers of the parties – will be consistent with a durable solution based on a return to growth.

B. Semi-institutional approach and internationally accepted principles

47. A semi-institutional approach aims at an internationally acceptable solution for sovereign debt restructuring mechanisms and thus at a higher degree of coordination, and possibly centralization, of such mechanisms than a contractual or market-based approach. In contrast to a statutory approach, it focuses on soft law principles or guidelines contained in international public law. The General Assembly, in its resolutions on external debt

sustainability and development, has repeatedly called for the consideration of such an enhanced approach to sovereign debt restructuring mechanisms based on existing frameworks and principles, with the broad participation of creditors and debtors.¹⁶ An example of such principles is UNCTAD's *Sovereign Debt Workouts: Going Forward – Road Map and Guide* (available from http://unctad.org/en/PublicationsLibrary/gdsddt2015misc1_en.pdf).

48. More generally, core principles under discussion include sovereignty, legitimacy (comprehensiveness, inclusiveness, predictability and ownership), impartiality (the absence of bias), transparency (institutional transparency and data transparency on debtor and creditor positions, projections underlying proposed restructurings and indicators used), good faith (fairness, honesty and trustworthiness) and sustainability (i.e. sovereign debt is sustainable if it can be serviced without seriously impairing the social and economic development of society and needs to be restructured if it cannot).

49. Proponents of this approach have developed a range of suggestions promoting the institutionalization of such general principles of debt restructuring. These include, for example, the creation of an independent oversight body for restructuring negotiations, such as a sovereign debt forum (a private organization) or a debt workout institute endorsed through a multilateral process (for the latter proposal, see the UNCTAD road map referred to in paragraph 47). Another avenue for promoting the application of general or soft law principles for sovereign debt restructuring mechanisms is domestic legislation, for example the Debt Relief (Developing Countries) Act 2010 in the United Kingdom of Great Britain and Northern Ireland, which addresses problems arising from non-cooperative bondholder litigation. Similarly, in June 2015, the Belgian Federal Parliament passed a law on the fight against the activities of vulture funds, intended to curtail harmful speculation by such funds (available from www.dekamer.be/kvvcr/showpage.cfm?section=/flwb&language=fr&cfr=/site/wwwcfm/flwb/flwbn.cfm?legislist=legisnr&dossierID=1057).

50. Overall, a semi-institutional approach based on soft law yet rooted in international public law has the advantage of building, for the most part, on existing mechanisms of negotiation and restructuring. Such an approach could be scaled up in the future if it attracted enough parties. However, the main limitation of the contractual approach applies to this approach as well, if to a lesser degree, namely that the principles are not binding and there is no guarantee of the willingness of a critical mass of parties to make more permanent commitments to these principles. This problem can only be solved through a full-fledged multilateral and statutory approach.

C. Statutory approach

51. In September 2014, the General Assembly, in its resolution 68/304, decided to elaborate and adopt a “multilateral legal framework for sovereign debt restructuring processes”. This represented a first step towards an international formal and statutory approach to establishing binding regulations for all parties through a multilateral process. This approach is certainly the most far-reaching and the most challenging.

52. Advocates of multilateral debt workout procedures often draw attention to the asymmetry between strong national bankruptcy laws, as an integral part of a healthy market economy, and the absence of any counterpart to deal with sovereign debt restructuring. Given the unique role of sovereign actors with respect to economic, legal and political outcomes, any such procedure should meet two objectives. First, it should help prevent financial meltdown in countries facing difficulties servicing their external obligations,

¹⁶ See General Assembly resolutions 64/191, 65/144, 66/189, 67/198 and 68/304.

which often results in a loss of market confidence, currency collapse and drastic interest rate hikes. All of this inflicts serious damage on public and private balance sheets and leads to large losses in output and employment, as well as a sharp increase in poverty. Second, it should provide mechanisms to facilitate an equitable restructuring of debt that can no longer be serviced according to the original contract. Meeting these goals implies the application of a few simple steps, as follows:

(a) Allowing a temporary standstill, whether debt is public or private, and regardless of whether the servicing difficulties are due to solvency or liquidity. To avoid conflicts of interest, a standstill should be decided unilaterally by the debtor country and sanctioned by an independent panel. The sanction should provide an automatic stay on creditor litigation.

(b) Accompanying a standstill with exchange controls, including the suspension of convertibility for foreign currency deposits and other assets held by both residents and non-residents.

(c) Providing debtor-in-possession financing, which automatically grants seniority status to debt contracted after the imposition of the standstill. IMF should lend into arrears for financing vital current account transactions.

(d) Ensuring that debt restructuring, including rollovers and write-offs, is based on negotiations between the debtor and creditors, and that it is facilitated by the introduction of automatic rollover and collective action clauses in debt contracts.

53. There are currently two main proposals for a formal statutory approach that could achieve these objectives. The first envisages the development, in some form, of a sovereign debt restructuring facility under the auspices of IMF. This would require an amendment to the Articles of Agreement of IMF. The second proposal emphasizes the need for a more permanent and impartial international institution that is not itself implicated in sovereign lending. It also favours the establishment of an independent tribunal, whether housed in existing courts, such as the Permanent Court of Arbitration or the International Court of Justice, or newly established. In any case, any permanent institution would need to be established through a multilateral treaty (or relevant modification of an existing treaty).

54. There are some essential features shared by all of the proposals for a statutory approach to sovereign debt restructuring, namely that legal decision-making in debt restructuring cases would be governed by a body of international law agreed to in advance as part of the international debt workout mechanism; the core purpose of any sovereign debt restructuring facility or tribunal would be to provide transparent, predictable, fair and effective debt resolution; and its decisions would be binding on all parties as well as universally enforceable.

55. Establishing a statutory solution for debt restructuring would be an extremely challenging and lengthy process, from treaty negotiations to eventual ratification. To be effective, a statutory approach would need the agreement of a critical number of future members and signatories to the underlying multilateral treaty. In particular, it would need to be approved by those economies under whose jurisdiction most external debt is currently issued. This is bound to be difficult, and there are also likely to be legitimate concerns about the powers of an international tribunal or IMF facility.

56. The main advantage of a multilateral statutory approach is that, if successfully established, it would promote a set of regulations and practices that embodied long-term objectives and principles – such as sustainable development, equity and fairness of outcomes and transparency of process – over and above particular interests. Given the deep-seated problems of accountability, partiality and lack of legitimacy that characterize many existing debt restructuring mechanisms, as well as their fragmentation, the provision

of a stable and clear institutional framework for sovereign debt restructuring could contribute to more effective debt resolution by preventing self-fulfilling destabilizing expectations and by allowing outcomes to become more predictable and consistent in debt resolution cases.

V. Conclusion

57. Recurrent external debt crises are likely to remain a major challenge to global financial governance. As noted in the present document, a major driver of this growing indebtedness is the push factor of fast-rising financial capital inflows in the context of a rapid and excessive global expansion of liquidity. Moreover, the concomitant growth of often complex and opaque financial and debt instruments, along with substantial changes in the structure and composition of the external debt of developing countries, have rendered their debt highly vulnerable to the vagaries of private financial markets in particular, and in the present global economy more generally. Even with regard to the larger and more advanced developing economies, it is not clear to what extent they are prepared to face the manifold challenges stemming from a much higher market risk exposure of their external debts, a fragmented and ad hoc system of debt restructuring mechanisms and an overall economic and institutional environment that introduces a recessionary bias to macroeconomic adjustment processes.

58. The persistent vulnerabilities and challenges posed by international financial markets therefore make it all the more important to ensure that the debate on enhanced debt restructuring mechanisms is taken seriously. The different approaches to this issue reflect wide variations in understanding of an economy's functioning and needs, as discussed in the present document, which may not be easily reconcilable. Consequently, it might be prudent to adopt a gradual approach to change in this area, proceeding from the more minimalist to more far-reaching proposals. What seems clear is that, despite its obvious difficulties in terms of political consensus building, a comprehensive, predictable, equitable and consistent framework for effective and efficient sovereign debt restructuring is indispensable. It will benefit both sovereign debtors and their creditors in the long term, with the sole exception of those focusing only on speculative litigation.



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Item 2 (a) of the provisional agenda

Multilateral processes for managing sovereign external debt

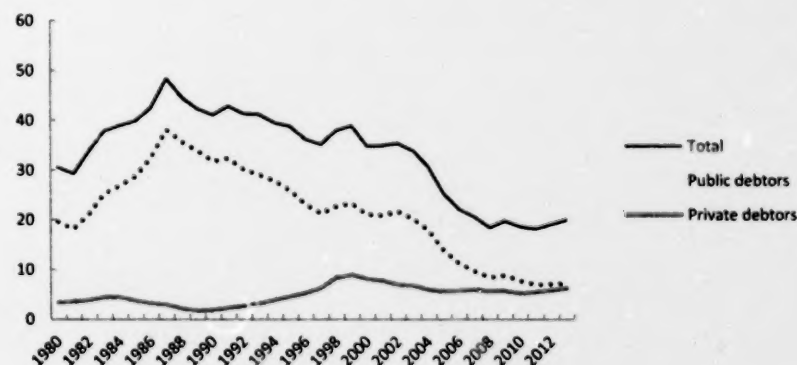
Development strategies in a globalized world: Multilateral processes for managing sovereign external debt

Corrigendum

Please replace the figure on page 6 with the following:

Figure 3

External debt by type of debtor in developing countries, 1980–2013
(Percentage of gross national income)



Source: UNCTAD secretariat calculations, based on UNCTADstat, the World Bank World Development Indicators database and national sources.

Note: Aggregates are based on countries for which there is a full set of data since 1980, except for countries with economies in transition, for which data is available from 1993. As part of the total external debt is unspecified, public and private debts do not always add up to the total.

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Please recycle



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Item 4 of the provisional agenda

**Contribution of UNCTAD to the implementation of the
Programme of Action for the Least Developed Countries
for the Decade 2011–2020: Fourth progress report**

Report by the UNCTAD secretariat

Executive summary

As with the previous sessions, the Trade and Development Board at its sixty-second session will review the UNCTAD-wide implementation of the Programme of Action for Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action). Pursuant to section VII (paragraph 156) of the Istanbul Programme of Action and the Doha Mandate, the reviews of the Board serve as input to the mandated global review by the General Assembly of progress towards the targets and objectives of the programme.

The present report is prepared to assist the Board in its consideration of item 3 on the provisional agenda: Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020. The report provides a synthesis of UNCTAD activities carried out between subsequent reporting periods in the areas of research and policy analysis, technical cooperation for capacity-building and intergovernmental consensus-building. It also includes conclusions and the way forward.

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I. Introduction

1. The overarching goal of the Istanbul Programme of Action is "to overcome the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category".¹ As stated in the Istanbul Declaration, the least developed countries (LDCs) "represent an enormous untapped human and natural resource potential, in particular their young populations, to contribute to national development, poverty eradication, and job creation, as well as global economic growth and welfare".

2. Successfully and effectively implementing the Istanbul Programme of Action will contribute to the fulfilment of the human and economic potential of LDCs. The Istanbul Programme of Action is particularly key for the mobilization of local, regional and global actions to foster broad-based, inclusive and sustainable development in LDCs. The programme's focus on productive capacities, agriculture, trade, commodities, social development, crisis management, financial resources and good governance are all key areas for improvement that will lead to LDCs being wealthier in both human and economic resources. To this end, progress in the implementation of the Istanbul Programme of Action should be monitored, domestic gaps and limitations assessed and opportunities for growth and development seized. In line with both the mandate outlined in paragraph 156 of the Istanbul Programme of Action, and the Doha Mandate, UNCTAD has an important role to play in contributing both to the implementation of relevant actions and commitments, and review and monitoring of progress. By summarizing UNCTAD's activities in the implementation of the programme, this progress report contributes to the follow-up, evaluation and monitoring progress towards the objectives of the Istanbul Programme of Action.

3. With regard to attaining the growth target, the real average growth rate of the LDCs in 2013 and 2014 was 5.2 per cent, about two percentage points lower than the 7 per cent growth rate agreed in the Istanbul Programme of Action and that was also experienced during the boom period of 2002–2008. The conditions that had enabled strong growth in the LDCs changed in the aftermath of the financial crisis due to the sharp fall of commodity prices combined with a decline in global demand.

4. To undertake structural transformation, each LDC requires fixed investment of the order of 25 per cent of gross domestic product (GDP), a target included in the Brussels Programme of Action for LDCs for the Decade 2001–2010, seen as necessary to achieve a sustainable growth of 7 per cent. Although there are variations at the country level, the LDCs as a group reached a gross fixed investment rate of 25.2 per cent of GDP in 2013. With the gross domestic savings rate at 17 per cent of GDP, the external resources amount to 8.2 per cent of GDP. Even with such a remarkable progress towards the investment to GDP ratio, LDCs still need increased financial and technical support to finance their development. The external financial flows to LDCs are composed mostly of remittances and concessional official financing, which account for almost three quarters of total capital flows to LDCs.

5. The mediocre performance of the LDCs in the past two years is likely to remain unchanged in the short to medium term, given that prospects for the global economy continue to be fraught with uncertainties. Even if the downside risks do not materialize, the GDP growth rates in these countries are expected to be lower than the 7 per cent target.

¹ Programme of Action for the Least Developed Countries for the Decade 2011–2020, A/CONF.219/3/Rev.1, paragraph 27.

making the challenges of structural transformation, employment generation and poverty reduction more daunting.

6. On graduation – one of the main goals of the Istanbul Programme of Action is to enable “half the number of least developed countries to meet the criteria for graduation by 2020” – the progress still remains slow. To date, only four countries have graduated from LDC status: Botswana (1994), Cabo Verde (2007), Maldives (2011) and Samoa (2014). Equatorial Guinea and Vanuatu are earmarked for graduation in 2017 and Angola in 2018. In the 2015 review of the United Nations list of LDCs, five other countries were found pre-eligible for graduation.²

II. The United Nations Conference on Trade and Development’s contribution

7. The mandate of UNCTAD to assist LDCs and contribute to the implementation of the Istanbul Programme of Action stems from paragraph 156 of the programme, and paragraph 18(g) of the Doha Mandate. The support that UNCTAD provides to member States is organized under three broad pillars of work:

- Research and policy analysis;
- Consensus-building and intergovernmental support;
- Technical cooperation and capacity-building.

8. The rest of this report presents the activities of UNCTAD under these three broad categories.

Research and policy analysis

9. The UNCTAD flagship reports promote the objectives of the Istanbul Programme of Action through identifying strategies for growth and human development, and the requisite evidence for implementing and evaluating those strategies:

- UNCTAD’s publication *The Least Developed Countries Report 2014 – Growth with Structural Transformation: A Post-2015 Development Agenda* shows that LDCs have enjoyed unprecedented economic growth since 2000. Nevertheless, most will not meet the majority of the Millennium Development Goals, which the report dubs the “LDC paradox”. Least developed countries are trapped in a vicious circle of economic and human underdevelopment. The “LDC paradox” is rooted in the failure of the Millennium Development Goals to recognize the need for a policy framework that generates transformative growth, and in the inability of the LDCs to achieve structural transformation. If LDCs are to meet the more ambitious sustainable development goals in a more challenging external environment, these goals will need to focus much more on ensuring structural transformation of LDCs towards becoming modern and diversified economies. This will also require concerted efforts by the international community.
- The *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa*, underscores the need to enhance the contribution of investment to growth. It stresses the importance of strengthening linkages between local and foreign enterprises, stemming capital flight to release more resources for investment, using aid and fostering international trade to stimulate and

² That is, countries to be reviewed for full eligibility in March 2018: Bhutan, Nepal, Sao Tome and Principe, Solomon Islands, and Timor-Leste.

boost investment. Interest in the report led to 120 press articles and various interviews. By the end of 2014, the report had been downloaded 9,700 times.

- The digital divide faced by LDCs was covered in the *Information Economy Report 2015: Unlocking the Potential of E-commerce for Developing Countries*. Online marketplaces and platforms provide opportunities for professionals in developing countries, and combined with trade facilitation measures, e-commerce can help LDCs integrate into global supply chains. A new index to assess the readiness of countries to engage in e-commerce revealed that LDCs made up the bottom 12 per cent of countries in the ranking.
- The *Review of Maritime Transport 2014* included a special chapter on the maritime transport situation in small island developing States (SIDS), many of which are LDCs. The chapter suggested that an effective way forward for transport and trade logistics in these States requires measures spanning a range of areas, including trade logistics, climate change and resilience-building, energy and the financing of sustainable and resilient transport systems.
- The *World Investment Report 2014*, UNCTAD's flagship publication on foreign direct investment, proposed an action plan to invest in the sustainable development goals. The report revealed that these goals will require a step-change in the levels of both public and private investment in all countries. At current levels of investment in sectors relevant to the sustainable development goals, developing countries alone face an annual gap of \$2.5 trillion. In LDCs, a doubling of the growth rate of private investment would be a desirable target to give it a meaningful complementary financing role next to public investment and official development assistance. In 2013, LDCs attracted a record level of foreign direct investment flows of \$28 billion, an increase of 14 per cent, despite the global foreign direct investment contraction of 8 per cent. The share of inflows to LDCs in global inflows remains small at 2 per cent. The report pointed out that the number of announced greenfield investment projects in LDCs also reached a record high.
- The *Trade and Development Report 2014: Global Governance and Policy Space for Development*, examines to what extent developing countries have effective policy instruments available, and the space to use these instruments, to advance the development agenda. The report assesses how the multilateral trading regime has dealt with the concept of special and differential treatment. It stresses that in spite of the regime's move towards a single-tier system of rights and obligations, LDCs have maintained some options for policy flexibilities, and more so than other developing countries. The report also discusses the implications for LDCs of sluggish economic growth in developed countries, with particular attention to the future development of primary commodity prices. The challenge for commodity-producing countries remains appropriating a fair share of resource rents, and using these revenues to reduce income inequality and diversify their economies.

10. Articles concerning LDCs appeared in the quarterly editions of the *Transport and Trade Facilitation Newsletter*.³ In issue number 1 of 2015, one article detailed the linkages between proposed sustainable development goals and specific trade facilitation measures. There exists a close statistical correlation between the notified trade facilitation implementation capacity and the Human Development Index.

11. A report was prepared entitled *Closing the Distance: Partnerships for Sustainable and Resilient Transport Systems in SIDS*. The work was informed by an ad hoc expert

³ Available at <http://unctad.org/en/Pages/DTL/TTL/Transport-Newsletter.aspx>.

meeting held on 11 July 2014 on the theme "Addressing the transport and trade-logistics challenges of the small island developing States: Samoa Conference and beyond".⁴

12. UNCTAD continued to maintain the online repository "Trade facilitation bodies around the world", with information on over 80 national trade facilitation committees, including a large number of African countries and LDCs.⁵ This helps improve coordination among private and public sector stakeholders involved in international trade.

13. In August 2014, UNCTAD published a two-part report focusing on the maritime piracy challenge, in particular as experienced in East and West African waters since 2005. The first part of the report entitled *Maritime Piracy Part I: An Overview of Trends, Costs and Trade-related Implications*⁶ provides statistics describing overall trends in maritime piracy and related crimes, and highlights some of the important repercussions for the trade of States in affected regions. The second part of the report entitled *Maritime Piracy Part II: An Overview of the International Legal Framework and of Multilateral Cooperation to Combat Piracy*⁷ provides an overview of the international legal regime for countering piracy and identifies examples of international cooperation in the area.

14. The country-level Liner Shipping Connectivity Index has been produced by UNCTAD annually since 2004.⁸ The index provides an indicator of a country's access to the global liner shipping network and thus to overseas markets for containerizable merchandise, that is, the most manufactured goods. Many of the countries with the lowest indices are LDCs.

Gender and social issues

15. The organization conducted research and analysis on the gender ramifications of macroeconomic policies, and specifically trade policies, in selected LDCs.⁹ The case studies illustrate the structural, social and cultural constraints that create or perpetuate gender inequality in sectors such as agriculture, fisheries, services and manufacturing that have been or can be dynamized by trade.¹⁰ The publication entitled *Looking at Trade Policy through a "Gender Lens"*, published in January 2015, summarizes the main findings of the series of country case studies on trade and gender conducted by UNCTAD.¹¹

16. The study *Who is Benefiting from Trade Liberalization in Rwanda? A Gender Perspective*, published in November 2014, assessed the impacts of Rwanda's trade policies on women and examined their role in the country's economy. The modernization of agriculture and Rwanda's increasing integration in the world economy can play a catalytic role in rural development and job creation for women, and yet also creates new challenges for women.

17. A two-volume teaching manual on trade and gender, published by UNCTAD in February 2015, provides a learning resource on trade and gender issues to all stakeholders – researchers, policymakers and civil society representatives – involved in research, policy formulation and advocacy. Volume I of the manual was translated into Nepalese by the Mid-Western University of Nepal. The concepts in the volume were "localized" by the same university and resulted in the paper, "Trade and gender in the context of Nepal".

⁴ See <http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=586>.

⁵ See <http://unctad.org/en/DTL/TLB/Pages/TF/Committees/default.aspx>.

⁶ Available at <http://unctad.org/tl/legal>.

⁷ Available at <http://unctad.org/tl/legal>.

⁸ Available at <http://stats.unctad.org/lsci>.

⁹ Angola, Bhutan, the Gambia, Lesotho and Rwanda.

¹⁰ All country case studies and the synthesis report are available at <http://UNCTAD.org/gender>.

¹¹ Including Angola, Bhutan, the Gambia, Lesotho and Rwanda.

18. Within this framework, the study *The Fisheries Sector in the Gambia: Trade, Value Addition and Social Inclusiveness, with a Focus on Women* was published in February 2014 as a result of a cooperation between UNCTAD and the Enhanced Integrated Framework secretariat. The report accompanied the Diagnostic Trade Integration Study (DTIS) update for the Gambia. In addition, UNCTAD has also undertaken a series of case studies on the fisheries sectors of Bangladesh, Cambodia, the Comoros, Mozambique, Sierra Leone and Uganda in the context of its Development Account project 1415M "Building the capacities of selected least developed countries to upgrade and diversify their fish exports".

Further research

19. External debt is targeted by section G – Mobilizing financial resources for development and capacity-building – of the Istanbul Plan of Action. The analytical and policy challenges that policymakers in LDCs face were addressed by UNCTAD via its annual report to the General Assembly Second Committee on external debt sustainability. The report provided detailed analysis on current trends and policy issues, the role of the Heavily Indebted Poor Countries Initiative in debt relief for LDCs as well as policy recommendations to further enhance debt sustainability in LDCs.

20. In February 2015, UNCTAD launched Country Profiles, a new easy-to-access database which allows users to get a statistical snap shot of every country. This tool was designed specifically with LDCs in mind, as it can be run on all browsers and with minimal Internet speeds.

21. The recent UNCTAD publication titled *Technology in Action: Good Practices in Science, Technology and Innovation Policies for Women in South Asia* showcased the interplay between science, technology and innovation and gender in Asian LDCs such as Afghanistan, Bhutan and Nepal.

22. The publication *Enhancing Backward Linkages between Tourism and Other Sectors in the Lao People's Democratic Republic* provides key recommendations regarding tourism. It highlights that in order to maximize the benefits of tourism, tourists must be encouraged to stay in the country for longer, and the Lao People's Democratic Republic must become a destination in itself rather than simply a transit destination.

23. The project "Identifying growth opportunities and supporting measures to facilitate investment in commodity value chains in landlocked developing countries" identifies growth opportunities and supporting measures that facilitate the participation of landlocked countries in global value chains. Zambia is one of the countries benefiting from country-specific case studies in this project.

24. The first paper in the Trade and Poverty Paper Series was launched by UNCTAD in May 2015, entitled *Transformative Regionalism, Trade and the Challenge of Poverty Reduction in Africa*. The series aims to promote policy-relevant research on issues pertaining to the impact of globalization and its effects on poverty and development.

Consensus-building and intergovernmental support

25. The fourth UNCTAD World Investment Forum 2014 was the largest one to date. Over four days and 50 events, the forum brought together 3,000 stakeholders from all corners of the investment-development community, including representatives from 39 LDCs. The ministerial round table on investing in the sustainable development goals convened investment, trade and development ministers from 29 countries and two heads of international organizations, 10 of which represented LDCs.

26. The forum provided an international platform to showcase investment opportunities; among the exhibitors were Haiti, Lesotho, Madagascar, the Sudan and Zambia.

These countries had the chance to engage with senior business executives, and interregional and international organizations. As a result of this exchange, a partnership between Lafarge and the Zambia Green Jobs programme is currently being drafted to construct sustainable residential units. This may lead to a commercial offer of 6,000 affordable houses in Zambia's copper mining area.

27. The forum featured a meeting of the UNCTAD–International Chamber of Commerce Investment Advisory Council, as well as a dialogue on the UNCTAD initiative entitled Business Schools for Impact. This initiative, launched during the forum of 2014, aims to engage with business schools to raise awareness among students of pro-poor investment opportunities and to equip students with the skills to be successful in such ventures.

28. The second United Nations Conference on Landlocked Developing Countries, 17 of which are also LDCs, was held in November 2014 in Vienna. In collaboration with the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, and the Common Fund for Commodities, UNCTAD has been implementing a project titled "Identifying growth opportunities and supporting measures to facilitate investment in commodity value chains in landlocked countries". The project assisted UNCTAD to carry out a series of country case studies to analyse how the landlocked condition affects the capacity of landlocked countries to develop their commodity sector in a sustainable way, via a series of country-specific case studies. As part of the project, UNCTAD organized a side event in New York in October 2014 and a high-level policy dialogue during the conference in Vienna. Together with the World Trade Organization (WTO), UNCTAD also contributed to a joint side event on "Harvesting the benefits of trade facilitation for landlocked developing countries".

29. The Istanbul Programme of Action also emphasizes the importance of building productive capacities and of mainstreaming productive capacities into national development policies.¹² A side event was organized by UNCTAD on indicators for benchmarking productive capacities in LDCs during the Benin Ministerial Meeting on New Partnerships for Productive Capacity-building in the Least Developed Countries (July 2014). Another side event on "Productive capacities, structural transformation and a post-2015 development agenda of the United Nations" was organized during the Ministerial Meeting of Asia-Pacific LDCs on Graduation and the Post-2015 Development Agenda, held in Kathmandu (December 2014).

Technical cooperation and capacity-building

Graduation

30. Supporting LDCs to meet the criteria for graduation has involved advisory services and technical assistance to countries with graduation prospects. After the Istanbul conference, one State graduated from LDC status (Samoa, January 2014), and three additional countries were found eligible for graduation.¹³ All these graduating States received UNCTAD assistance towards a smooth transition to post-LDC status.

31. In February 2015, the second phase of the training and capacity-building workshop on structural economic transformation beyond the graduation of Angola took place in Luanda. The workshop created awareness about key issues related to graduation, as well as

¹² Programme of Action for the Least Developed Countries for the Decade 2011–2020, A/CONF.219/3/Rev.1, p. 11.

¹³ Equatorial Guinea, Vanuatu, and Angola, for which graduation is planned for June 2017, December 2017 and December 2018, respectively.

opportunities and challenges. This enabled the Government of Angola to make decisions with regard to the country's graduation based on the graduation criteria and rules of the United Nations. The workshop focused on the following issues:

- Policies for the structural economic transformation of Angola;
- Building productive capacities and promoting economic diversification;
- Criteria, methodology for graduation and progress towards graduation thresholds;
- Building institutions and enhancing institutional coordination for sustained socioeconomic progress;
- Harnessing the commodities and extractive sectors and capturing the gains from such sectors to accelerate socioeconomic development;
- Lessons from other developing countries from Africa and Asia.

32. In March 2015, at the request of the Government of the Lao People's Democratic Republic, and in conjunction with the United Nations Development Programme, UNCTAD organized a national workshop on preparing for LDC graduation. The workshop included both a technical working session as well as a policy-level consultation on LDC graduation. The technical session offered the opportunity for a discussion on LDC graduation issues. The policy-level consultation informed key policymakers on the meaning of graduation. Stakeholders, including government officials, were sensitized to their roles and required actions to achieve the graduation objective.

33. At the third International Conference on Small Island Developing States, jointly with the United Nations Development Programme, UNCTAD organized a panel discussion on SIDS and graduation from LDC status. The event, co-chaired by the Secretary-General of UNCTAD and the Administrator of the United Nations Development Programme, involved the President of Kiribati, the Prime Ministers of Cabo Verde, Tuvalu and Vanuatu, the Deputy Prime Minister of Samoa, and a minister from Maldives.

Diagnostic trade integration studies, rules of origin and geographical indication support

34. The DTIS is the cornerstone of the Enhanced Integrated Framework programme in terms of mainstreaming and integrating trade into a country's national development plan. It provides analysis and recommendations on how trade can be used as an instrument for fostering inclusive growth and development. The DTIS activities of UNCTAD over the reporting period included the following:

- In Mali a workshop on trade facilitation and customs procedures was held in June 2014 in Bamako. The workshop analysed the current customs clearance and transit procedures, and identified the main limitations to and strategies for improvement of the system;
- The validation workshop of the DTIS update of Mozambique was jointly organized by UNCTAD and the Government of Mozambique in November 2014 in Maputo. The DTIS highlighted the need for an updated trade strategy and the establishment of interministerial coordination for trade mainstreaming;
- In the case of Djibouti, the DTIS shows that there are various areas of opportunity for promoting inclusive growth, such as Djibouti's port infrastructure and the possibility to develop the corridor with Ethiopia. The DTIS also examines the potential of the tourism and fisheries sector, and how supply capacity could be developed;
- In 2014, Ethiopia requested UNCTAD to carry out the update of its DTIS. A mission to Ethiopia conducted interviews and discussions with high-level officials

regarding the expectations of the Government. The concept note was validated in December in Addis Ababa. UNCTAD organized two brainstorming meetings in December to identify clusters of products that could augment aggregate value:

- In June 2014, in Banjul, UNCTAD (in collaboration with the Enhanced Integrated Framework secretariat) organized a regional event on the implications of the WTO Trade Facilitation Agreement on regional transit issues. Discussions centred on the issues of the Economic Community of West African States inter-State road transit agreement arising in the context of the DTIS updates of the Gambia, Mali, the Niger, Senegal, and with the participation of Burkina Faso.

35. UNCTAD provides policy advice and technical assistance on rules of origin to the WTO LDC group, as well as to individual countries, for better utilization of trade preferences granted by preference-giving countries. Particular activities include the following:

- In response to a request from Myanmar, in October 2014 the Division for Africa, Least Developed Countries and Special Programmes of UNCTAD carried out a workshop on market access and rules of origin and their utilization of different Generalized System of Preferences schemes;
- In November 2014, two workshops on operational procedures and training relating to the rules of origin were held in Phnom Penh;
- In April 2015, UNCTAD carried out, jointly with the European Institute, a training course on rules of origin for WTO LDC negotiators in Florence, Italy.

36. In October 2014, in collaboration with Slow Food, UNCTAD organized a regional workshop on "Voices from rural communities in least developed countries: Promoting traditional food products and the territory through "made in" initiatives and geographical indications" in Turin, Italy. Participants considered how laws on geographical indications and branding initiatives can assist rural communities in LDCs to promote their products and enter value chains, while preserving territorial integrity and biodiversity.

37. In December 2014, a workshop on "Promoting traditional products: Moving towards a geographical indication registration for the pink rice of Madagascar" was held in Amparafaravola. Representatives of UNCTAD and geographical indication experts discussed with farmers how to promote their products through geographical indication.

38. In collaboration with the Food and Agriculture Organization of the United Nations, a regional workshop was held in Phnom Penh (December 2014). The workshop, entitled "Making geographical indications work for rural communities in selected Asian countries: Identify products and drafting of disciplinary for geographical indication registration", shared experiences among the different rural communities and government officials from selected Asian countries. Participants sought a better understanding of the constraints that rural communities are facing in promoting their products while preserving their identity. The Government of Cambodia appreciated the workshop and considered it an example of interagency coordination.

Debt management and debt sustainability

39. Between July 2014 and July 2015 the UNCTAD Debt Management and Financial Analysis System provided direct support to 10 LDCs through the implementation of technical assistance projects. Support included the delivery of 18 training and evaluation missions, covering advisory services in institutional debt management issues, and capacity-building training in debt data validation, statistics and basic debt analysis. The programme also participated in seven support missions to LDCs jointly with the World Bank, the International Monetary Fund and other partners under the Debt Management Facility.

This has contributed to improved capacities in LDCs' debt management offices, as evidenced by improved results from public expenditure and financial accountability framework assessments. Another important indicator of improved capacity is the improved quality of debt data reported to the World Bank Debtor Reporting System, with 95 per cent of the LDCs that use the Debt Management and Financial Analysis System reporting to the Debtor Reporting System.

Human capital and capacity-building through training and advisory services

40. In 2014, three new universities (from Burundi, the United Republic of Tanzania and Zambia) and one think tank (from the United Republic of Tanzania) joined the UNCTAD Virtual Institute (Vi). The Vi supported the development of a graduate course on global value chains management at the Makerere University Business School, Uganda. In the area of professional development, the Vi offered two online courses – on trade and poverty, and on non-tariff measures – which were completed by 17 and 14 participants from LDCs, respectively.

41. Three national professional development workshops were also organized by Vi for a total of 91 LDC academics. Two workshops requested by Vi member universities in the Gambia and the United Republic of Tanzania focused on tools for trade policy analysis, while the workshop requested by Nepal related to development policies in the post-2015 context.

42. Three LDC academics (from the Gambia, Senegal and Uganda) took part in the Vi fellowship programme in Geneva, where they advanced the development of research papers and a proposal for a new academic course with the support of UNCTAD mentors. Academics from Benin and the Democratic Republic of the Congo benefited from mentoring to develop country case studies on trade and poverty issues. The studies were published on the Vi website.

43. A number of LDCs are assisted by UNCTAD through its Development Account project on "Building capacity in regulatory and institutional sovereign debt governance". The first workshop took place in Kathmandu on 30–31 March 2015, with participants from five LDCs.¹⁴ The project promotes responsibility of the parties involved in sovereign lending, borrowing, and debt governance.

44. In February 2015, UNCTAD delivered the "Regional course on key issues on the international economic agenda" for African officials and academics, including those from 10 LDCs, hosted by the University of Mauritius. All participants provided appreciative feedback on the course content.

45. At the WTO LDC group's request, UNCTAD organized a "Least developed countries group ambassadors and experts retreat" for defining a WTO post-Bali work programme to conclude the outstanding issues in the Doha Round and prepare for the WTO tenth Ministerial Conference. Inputs that could be used by the group to prepare actual negotiating positions and understanding their development implications were discussed. Furthermore, UNCTAD assisted the LDC group in undertaking the legal review of the Trade Facilitation Agreement for LDCs in the WTO. The legal clarity provided a sense of assurance to trade negotiators on the interpretation of several provisions. It also helped the LDCs as a group in the "legal scrubbing" exercise in the Preparatory Committee of the Trade Facilitation Agreement.

¹⁴ Bangladesh, Haiti, Mauritania, Nepal and Togo.

46. To support trade and services policy formulation and implementation, UNCTAD continues to support LDCs at country level to formulate and implement trade and services policies. In this regard, UNCTAD:

- Supported Angola to prepare and validate a comprehensive trade policy framework on 29 September 2014 through a stakeholders meeting;
- Provided technical support to Zambia in updating its existing commercial, trade and industrial policy. On 9 and 10 April 2015, the trade policy suggestions were validated by stakeholders. These policy suggestions will be incorporated in the country's amended trade policy;
- Provided support for requested Services Policy Reviews, covering important sectors including financial, tourism, energy, and telecommunications, for Lesotho, Rwanda and Uganda.

47. In the area of WTO accession, UNCTAD's work involves support to all LDC acceding countries.¹⁵ For instance, recent advisory services, field missions and capacity-building activities include the Comoros (advisory missions in June and December 2014), Liberia (review of initial goods offer, initial services offer and legislative plan of actions, May 2014), and the Sudan (September 2014, workshop "Doha negotiations and accession process to WTO"). Advice was also provided to Yemen, including on a review of trade-related domestic legislation to ensure compatibility with General Agreement on Tariffs and Trade and WTO provisions (2013/2014).

48. UNCTAD works with LDCs in the area of non-tariff measures by building capacity to enhance understanding and compliance. The organization's current work extends to Cambodia and the Lao People's Democratic Republic. These efforts help LDCs with measures including sanitary/phytosanitary and technical barriers to trade, and licensing, and to increase transparency.

49. Through the Development Account project "Strengthening of capacities of trade and planning ministries of selected least developed countries to develop and implement trade strategies that are conducive to poverty reduction", UNCTAD delivered national workshops in 2014 in the Lao People's Democratic Republic and Senegal. A training module, in tandem with the national workshop, was also provided in the Lao People's Democratic Republic. The workshops covered national trade policy frameworks and trade strategies, and undertook a comprehensive analysis of the economic and institutional constraints facing LDCs in their efforts to make trade an engine of growth and poverty reduction. The national workshop in Senegal discussed the opportunities and challenges faced by the country following the recent completion by UNCTAD of the DTIS update and the integration of trade into the national development plan. As part of the workshop, UNCTAD also provided policy advice in preparation for a donors' meeting in Paris in 2014. In the case of the Lao People's Democratic Republic, the workshop and training activities focused on topics such as the role of key linkage sectors for poverty reduction.

50. A regional workshop was organized by UNCTAD on mainstreaming trade into national policies to reduce poverty in LDCs in Maseru in March 2015. The workshop reviewed the national studies of the three pilot countries in Africa to understand the mainstreaming of trade measures into national policies, and the constraints facing the countries in making trade an engine of human development. Strategies to address these challenges were identified. Building productive capacities was identified as a critical element for the mainstreaming of trade policies into poverty reduction measures.

¹⁵ Afghanistan, Bhutan, the Comoros, Ethiopia, the Lao People's Democratic Republic, Liberia, Samoa, Sao Tome and Principe, the Sudan and Yemen.

E-commerce, online consumer protection and cybercrime

51. UNCTAD collected data about the state of e-commerce laws in the field of e-transactions, online consumer protection, and data protection/privacy across the globe. The Global Cyberlaw Tracker was launched in March 2015.¹⁶ It allows countries to compare the level of adoption of e-commerce legislation and serves as a tool for member States to identify policy areas that require attention. In 2014, only 18 LDCs had legislation on e-transactions.

52. In 2014, member countries of the Economic Community of West African States (of which 11 are LDCs) continued to receive UNCTAD's support in the national implementation of the e-commerce regional legislation. Particular focus is given to e-transactions, cybercrime and data protection. Similarly, assistance was provided to East African Community partner States, of which four are LDCs, in the transposition at the national level of the regional cyberlaw frameworks I and II.

53. During the interactive debate organized on "Cutting the costs of remittances: The role of mobile money" held in Geneva in June 2014, participants discussed how the uptake of mobile phones in low-income countries has opened new possibilities for facilitating remittance flows. International remittance flows are being made more affordable by leveraging mobile money and online transfer mechanisms. Reducing the costs of remittances could enhance financial inclusion in developing countries.

54. The Expert Meeting on Cyberlaws and Regulations for Enhancing E-commerce, Including Case Studies and Lessons Learned (25–27 March 2015) included participants from 23 LDCs. The meeting focused on assessing needs for cyberlegislation, best practices in fostering cross-border online transactions, and improving security online. The meeting also covered developing relevant cyberlegislation and how assistance from international organizations and other development partners can help facilitate the enforcement of e-commerce laws.

Trade facilitation and customs modernization

55. The Automated System for Customs Data (ASYCUDA) programme for customs automation and modernization delivers technical assistance to developing countries and LDCs. Two new countries and one overseas territory¹⁷ adopted ASYCUDA in 2014. Overall, 210 training sessions were carried out for an audience of more than 4,000 participants, including many from LDCs.

56. The ASYCUDA performance indicators module was installed in Liberia. Initial results were a reduction of manual reassignment and increased recovery of duties and taxes due to the introduction of new measures supported by evidence given by the module.

57. Three key intergovernmental meetings were organized by UNCTAD with a focus on SIDS and their transport-related challenges, including in particular climate- and weather-related threats to critical coastal transport infrastructure and operations:

- An Ad Hoc Expert Meeting on Addressing the Transport and Trade Logistics Challenges of the Small Island Developing States (SIDS): Samoa Conference and Beyond, held on 11 July 2014;
- A high-level side event held at the third International Conference on Small Island Developing States (Samoa Conference), 1–4 September 2014, on "Harnessing the

¹⁶ See <http://unctad.org/cyberlawtracker>.

¹⁷ Angola, Antigua and Barbuda, and Saint Pierre and Miquelon.

oceanic wealth of small island developing States through sound trade specialization and sustainable and resilient maritime transport”.

- The third session of the Multi-year Expert Meeting on Transport, Trade Logistics and Trade Facilitation, held on 24–26 November 2014, focused on some of the particular transport and trade logistic challenges that SIDS face in connection with their remoteness and geographical location.¹⁸

Gender and women's empowerment

58. Activities that supported the development of the LDCs with a focus on gender and economic issues were as follows:

- An online course was organized jointly by the Vi on trade and gender, based on a teaching manual. In its first iteration (19 January – 8 March 2015) the course was taken by 104 participants from 51 countries/territories; 27 participants from LDCs joined the course;¹⁹
- A national workshop, attended by around 50 participants, was conducted in Kigali in November 2014. This presented the findings and recommendations of a country case study to enhance the capacities of local policymakers to mainstream gender in trade policy and familiarize the relevant stakeholders with the methodologies used;
- In March 2015, UNCTAD held the event “Looking at trade policy through a gender lens”. The event presented the main findings of country case studies on trade and gender and launched the teaching package on the same theme.

59. The UNCTAD guide *Empowering Women Entrepreneurs through Information and Communications Technologies* integrates the information and communications technology dimension in a framework for assessing women's entrepreneurship development, and provides insights from focus group discussions in the United Republic of Tanzania. Uganda and the United Republic of Tanzania implemented the new framework.

60. The work by UNCTAD on trade and gender has had effects in broad-ranging areas. The findings and policy recommendations of the studies on trade and gender inform policy formulation and influence development plans, poverty reduction strategies and the design of trade policy. A web survey has assessed the relevance of the country studies, and 64 per cent of respondents thought that the country studies were extremely or very relevant to national context. Questionnaires were organized regarding the national workshops that presented the findings of the country studies, and the online course on trade and gender, and these also received highly satisfactory responses.

Trade, environment and development

61. The National Green Export Reviews are UNCTAD's response to support developing countries, including LDCs, in identifying green goods with strong prospects for production and export growth. For instance, Vanuatu has made significant progress in advancing a review to add value to traditional exports, including coconut, cocoa and sandalwood. Given Vanuatu's distance from markets, national experts propose actions to boost exports in added value products by targeting efforts to market these products to the 350,000 tourists that visit the island every year.

¹⁸ Doha Mandate, paragraph 56(j).

¹⁹ Representing Bangladesh, Burundi, the Democratic Republic of the Congo, Ethiopia, Lesotho, Mozambique, Nepal, Rwanda, Senegal, Sierra Leone, the Sudan, Togo, the United Republic of Tanzania and Zambia.

62. The project “Enhancing sustainable tourism, clean production and export capacity in the Lao People’s Democratic Republic”, funded by the State Secretariat for Economic Affairs of Switzerland under the framework of the United Nations Cluster on Trade and Productive Capacity, implements organic agriculture development activities in the Lao People’s Democratic Republic. In 2014, UNCTAD supported the organization of the third Lao Organic Agriculture Forum (LOAF 3), held jointly with two local ministries in July in Vientiane. The forum aims to facilitate information and experience-sharing among stakeholders interested in organic agriculture development in the country. It is a platform to inform participants of the organic agriculture development situation in the Lao People’s Democratic Republic, and discuss future directions that could be undertaken by public authorities and the private sector (farmers). It also facilitates information-sharing among civil society, the public and private sectors in the country on traceability, standards, and linkages with the tourism industry.

63. At LOAF 3, the exchange of experiences included those of other countries (namely Thailand and Uganda), different agricultural sectors (for example, bioenergy), and anti-competitive issues. Participants shared ideas to develop the organic agriculture sector in the Lao People’s Democratic Republic. Stakeholders identified challenges and opportunities, and suggested ways to expand organic production. Participants called for continuing the LOAF and for the Government to institute it as a national annual event. The forum provided inputs for the Government to include in future legislation.

Competition and consumer protection

64. Benin, Burkina Faso, Guinea-Bissau and Senegal are members of the West African Economic and Monetary Union (WAEMU) and part of the WAEMU regional programme within the framework of UNCTAD’s Competition Programme for Africa since 2011. Since 2013, UNCTAD has organized several workshops and a two-week training course for case handlers and the representatives of their member States in cooperation with the Zurich School of Management and Law. Two drafting sessions were organized in Geneva in cooperation with the Competition Directorate of the WAEMU Commission. These sessions drafted guidelines to decentralize the enforcement power to member States, and thereby improve the enforcement of the community rules in WAEMU. Additional activities in Ouagadougou and in Abidjan in 2014 put forward regional amendments of the law.

65. In response to a technical assistance request from Ethiopia and in consultation with the Government, UNCTAD developed a project proposal based on the needs of the Ethiopian Trade Competition and Consumer Protection Authority. The project reinforces the authority’s capacity to implement competition and consumer protection laws. The project began in December 2014 and covers four broad areas: the policy and legal framework, the institutional framework, enforcement capacity-building, and advocacy for competition and consumer protection.

66. The pilot project “Strengthening technical competency for consumer protection in [the Association of Southeast Asian Nations] ASEAN” enhances the Lao Ministry of Industry and Commerce’s capacity to implement consumer protection laws and handle consumer complaints. The project strengthens the capacity of government agency personnel through the development and delivery of training programmes, modular components and materials. The six core areas²⁰ focused on are: product safety and labelling; phone, Internet services, and e-commerce; consumer credit and banking; environment; healthcare services; and professional services. After the field visit carried out by UNCTAD in Vientiane in

²⁰ As identified in the ASEAN–Australia Development Cooperation Programme phase II project report “Road-mapping capacity-building needs in consumer protection in ASEAN”.

December 2014, the Ministry requested UNCTAD assistance in drafting the guidelines for preparing specific training materials for enforcers.

67. UNCTAD has continued its tripartite peer review for the United Republic of Tanzania, Zambia and Zimbabwe, relating to competition and consumer protection:

- A curriculum for a competition law and policy course for the University of Zimbabwe has been developed. A five-day training of trainer's course for 30 participants validated the curriculum materials. A follow-up training course has been requested by the university;
- Policy review for Zimbabwe: competition policy draft was finalized, ready for presentation to government legislative drafters;
- Subsidiary legislation for implementation guidelines for the United Republic of Tanzania has been drafted;
- Subsidiary legislation for Zambia has been developed in the areas of merger applications guidelines, investigative procedures administrative guidelines, guidelines on how to calculate fines for law infringements, and leniency programmes for cartels.

Foreign direct investment

68. Out of the 38 Investment Policy Reviews (IPRs) completed by UNCTAD, 16 were prepared for LDCs. During the reporting period, UNCTAD published the IPR for the Sudan and is currently finalizing the IPR for Madagascar. Around five or six years after the completion of an IPR, UNCTAD prepares a report that assesses the extent of the implemented recommendations. Implementation reports have been published for Ethiopia, Lesotho, Rwanda, Uganda, the United Republic of Tanzania and Zambia.

69. The IPR programme continues to demonstrate its quality and impact. The implementation reports for LDCs showed good to strong implementation records, increased interest by existing investors, and increased capacity for market investment opportunities. Following the review of their investment policies by UNCTAD, most beneficiary countries recorded increases in foreign direct investment inflows. The value delivered through IPRs and follow-up activities has prompted additional requests for IPRs.²¹

70. To improve the technical capacity of LDCs to participate effectively in international negotiations on investment treaties and implement them accordingly, UNCTAD delivered capacity-building assistance to a number of requesting countries. In total, 33 LDCs have benefited from UNCTAD national and regional technical assistance training in Africa, Asia, Latin America and Oceania during the last five years. Training is based on the UNCTAD Investment Policy Framework for Sustainable Development, taking not only a legal but also a policy approach. It fosters the sustainable development dimension of international investment agreements and the prevention and better management of investor-State dispute settlement cases. The International Investment Agreements Work Programme has delivered:

- Intensive regional training courses on the negotiation of international investment agreements and on the management of investor-State dispute settlement (and hybrids between the two);

²¹ Including requests from Bhutan, the Central African Republic, Chad, the Democratic Republic of the Congo, Guinea-Bissau, Haiti, Malawi and Mali.

- Targeted technical assistance at the request of member countries and/or regional organizations;
- The organization and co-organization of and/or contributions to specific international conferences, including technical assistance activities and seminars on international investment agreement and investor-State dispute settlement issues.

71. The Common Market for Eastern and Southern Africa and ASEAN prepared their respective investment reports in 2014 in the area of foreign direct investment statistics and policy analysis with the continued assistance of UNCTAD. The organization's work contributed to the capacities of the member States of the two organizations to collect data.

72. Assistance to LDCs' national investment promotion agencies is provided by UNCTAD. Each year a number of best practice agencies are rewarded for their achievements in promoting investment for sustainable development and their experiences are shared with other agencies. At the 2014 World Investment Forum, in October, the Rwanda Development Board was among the winners of the Investment Promotion Awards.

73. The eRegulations programme, an e-government system that helps countries simplify their rules and procedures for setting up a business, is operational in twelve LDCs.²² The system contributes to increased transparency and greater institutional capacity, thereby facilitating business and making LDCs more attractive to foreign investment. For instance, in Mali small traders can register for free, in 15 minutes, using only one form and a copy of their identification card. In the Niger, the number of new enterprises created in the country increased by 44 per cent since the inception of the programme. In the United Republic of Tanzania, companies can be created with one form and two steps online, and it takes a maximum of 10 days through the Tanzania Investment Window. eRegulations is currently being installed in Bangladesh.

74. The UNCTAD investment guides raise awareness among the international investment community of investment opportunities and conditions in beneficiary countries. Guides are now being developed online (iGuides), and Burundi, Nepal and Rwanda were among the initial beneficiaries of this initiative. iGuides are currently being prepared for Bhutan and Uganda.

Intellectual property, entrepreneurship, and private sector development

75. In the area of intellectual property, UNCTAD provided capacity-building training to the East African Community (October 2014), South Asian countries (December 2014), and national seminars to Ethiopian and Nepalese stakeholders (November 2014).

76. The advisory report on the development dimensions of intellectual property in Nepal was completed and presented to stakeholders in Kathmandu. The report provided analysis and recommendations designed to promote innovation and technology transfer from abroad, as well as a pro-competitive and transparent domestic intellectual property system.

77. Three LDCs used policy measures and tools designed by UNCTAD to strengthen entrepreneurship: Ethiopia, the Gambia, and Zambia. The implementation of the Entrepreneurship Policy Framework identified gaps in and the appropriate prioritization of entrepreneurship objectives.

78. In Ethiopia, UNCTAD is currently supporting the Entrepreneurship Development Programme. This programme aims to unleash the growth potential of small enterprises and microenterprises through entrepreneurial skills training and provision of business advisory

²² Benin, Bhutan, Burkina Faso, the Comoros, Ethiopia, Guinea-Bissau, Mali, Niger, Rwanda, Senegal, Togo and the United Republic of Tanzania.

services. The project identifies and selects growth-oriented enterprises, as well as potential entrepreneurs, unemployed youth, and women entrepreneurs, and provides them with entrepreneurship training and an integrated range of business development services. The Empretec model developed by UNCTAD is the main methodology for entrepreneurship training in the country and is being implemented through Empretec Ghana, which has been delivering a number of workshops in the country. Local trainers will be certified under supervision of UNCTAD in 2015.

79. Assistance was provided by UNCTAD to the eight established Empretec centres in LDCs through advisory services, policy workshops and seminars based on the Entrepreneurship Policy Framework, training to entrepreneurs and SMEs, and support to regional networks and initiatives.

80. The Business Linkage Programme aims to connect large companies with dependable business partners in developing countries. In 2014, the United Republic of Tanzania and Zambia benefited from the programme. There is a growing interest from large companies, both domestic and foreign, in sourcing locally. The main UNCTAD efforts are focused on providing a portfolio of services that build the capacity of selected local suppliers to enter the companies' value chains and become enduring business partners.

81. Building on the *World Investment Report 2009*, and with the support of UNCTAD's member States, UNCTAD and other international organizations continued to work towards the full-scale operationalization of its set of Principles for Responsible Agricultural Investments for Sustainable Development. The principles were piloted in 13 countries of which seven are LDCs.²³ Based on these results, in 2015 UNCTAD tailored capacity-building workshops to provide policy guidance on the negotiation of contracts to officials from the Lao People's Democratic Republic, Malawi, Mozambique and the United Republic of Tanzania.

82. The Accounting Development Tool, which strengthens regulatory and institutional capacity for quality corporate reporting, is currently being implemented in the Democratic Republic of the Congo.

III. Conclusions and the way forward

83. The contribution of UNCTAD to the implementation of the Istanbul Programme of Action in the areas of its competence formed part of the global efforts to understand specific socioeconomic conditions and challenges of LDCs and to chart policy actions for implementation at the national, regional and international levels. Technical cooperation activities also contributed to efforts to improve human and institutional capacities in LDCs in the areas of trade, investment and overall development policy formulation and implementation. On issues related to graduation from the LDC category and in the context of global summits and conferences, UNCTAD has been advocating to put productive capacities and structural economic transformation at the centre of national policies and strategies as well as in global programmes of action. These will be critically important inputs to the global mid-term review of the implementation of the Istanbul Programme of Action programmed for June 2016.

84. Given the importance of trade for its positive effects on poverty reduction, the efforts of UNCTAD to mainstream trade processes and identify bottlenecks in cooperation with LDCs are also a vital part of the implementation of the Istanbul Programme of Action. In sum, the many activities presented in this progress report characterize action towards the

²³ Cambodia, Ethiopia, Liberia, the Lao People's Democratic Republic, Mozambique, the United Republic of Tanzania and Zambia.

goals of the Istanbul Programme of Action that will result in a brighter future for the millions of people living and working in LDCs.

85. As a way forward, and building on its expanded and strengthened support to LDCs, UNCTAD will continue addressing specific socioeconomic challenges facing these countries. The future work of UNCTAD on LDCs will continue to assist efforts aimed at enabling LDCs to take advantage of national, regional and global opportunities for trade, investment and sustainable development. In this context, particular attention will be given to LDCs in the forthcoming global summits and conferences, including the United Nations Summit to Adopt the Post-2015 Development Agenda, the fourteenth session of the United Nations Conference on Trade and Development and the mid-term review of the Istanbul Programme of Action.

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**Evolution of the international trading system and
its trends from a development perspective****The role of smallholder farmers in sustainable commodities
production and trade****Report by the UNCTAD secretariat***Executive summary*

Building on the momentum generated by the attention devoted to smallholders in 2014, the forthcoming UNCTAD *Commodities and Development Report 2015* carries the issue forward and argues that smallholders are key actors in the quest for a more inclusive and socially and environmentally sustainable agricultural development model. The report states that by their sheer number, smallholders should warrant specific attention in the aspiration to “leave no one behind” in the efforts to be deployed in the achievement of the forthcoming sustainable development goals (SDGs). This note highlights the report’s findings and key messages. It underscores the major constraints facing smallholders and provides policy recommendations to help unlock their potential contribution to sustainable commodities production and trade. In addition to the tested solutions and good practices identified in many countries, the *Commodities and Development Report 2015* offers a policy framework that combines measures at the national, regional and international levels and an accompanying plan of action for smallholders that builds on UNCTAD’s integrated approach to trade, finance, investment and technology. The report underlines the need for policy clarity and strong leadership at the highest levels – domestic, regional and international – as well as the primacy that should be given to policy alignment across these three levels. Because business as usual is not an option in achieving the forthcoming SDGs, the report argues that a mechanism for greater accountability based on the monitoring of progress on key commitments related to smallholders is urgently needed.

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I. Introduction

1. There were many good omens for smallholder farmers in 2014. Indeed, the contributions of family farmers and smallholders to food security, poverty reduction and sustainable development were specifically recognized by the United Nations General Assembly when it declared 2014 as the International Year of Family Farming. The African Union in turn proclaimed 2014 as the Africa Year of Food Security. Building on this momentum, the UNCTAD *Commodities and Development Report 2015* carries the issue of smallholders into 2015, a pivotal year for the international development agenda. The report focuses on those who farm areas of about 2 hectares of landholding or less, and argues that smallholders are key actors in the quest for a more inclusive and socially and environmentally sustainable agricultural development model. The report states that by their sheer number, smallholders should warrant specific attention in the aspiration to "leave no one behind" in the efforts to be deployed in the achievement of the forthcoming SDGs.

2. Notwithstanding diversity of contexts and data constraints, according to the International Fund for Agricultural Development and the United Nations Environment Programme, about 2.5 billion people are employed, partially or entirely, in 500 million small farms worldwide.¹ With regard to geographic distribution of small farms (that is, less than 2 hectares), data from the Food and Agriculture Organization of the United Nations (FAO) covering the 2001–2004 period suggest that about 87 per cent of these are in the Asia and Pacific region, 8 per cent are in Africa, 4 per cent are in Europe and less than 1 per cent are in Latin America. There are, for example, about 45 million small farms in Africa, many of which consist of subsistence farmers that rely entirely or partially on family labour, which is comprised mainly of women.²

3. Smallholders supply about 70 per cent of Africa's total food requirements and provide around 80 per cent of the food consumed in both Asia and sub-Saharan Africa.³ Furthermore, smallholders in several developing countries produce the bulk of these countries' main agricultural exports. For example, in Ghana cocoa production is dominated by thousands of smallholder producers cultivating less than 2 hectares per farm. Owing largely to its smallholders, Ghana produces an estimated 20 per cent of the world's cocoa, making the country the second largest producer in the world, with cocoa exports accounting for about 40 per cent of its foreign exchange earnings and for 8–12 per cent of its gross domestic product.⁴

4. However, despite their important contribution smallholders have suffered from benign neglect by policymakers as well as by the international community. As a result, smallholders in the developing world continue to account for a large proportion of the poor. Estimates show that 70 per cent of the developing world's 1.4 billion extremely poor people

¹ International Fund for Agricultural Development and the United Nations Environment Programme, 2013, *Smallholders, Food Security, and the Environment* (Rome), available at http://www.ifad.org/climate/resources/smallholders_report.pdf (accessed 15 July 2015).

² FAO, 2011, *The State of Food and Agriculture 2010–11, Women in Agriculture: Closing the Gender Gap for Development* (Rome), available at <http://www.fao.org/docrep/013/i2050e/i2050e.pdf> (accessed 16 July 2015).

³ See reference footnote 1.

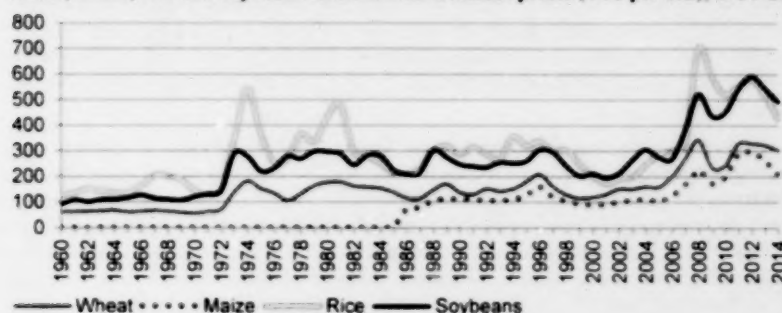
⁴ See Ghana: A self-assessment guide for the cocoa sector, available at <http://cdes.coleacp.org/en/cdes/news/30589-ghana-self-assessment-guide-cocoa-sector> (accessed 16 July 2015).

live in rural areas, particularly in South Asia and in sub-Saharan Africa.⁵ Taking this grim reality as a starting point, the *Commodities and Development Report 2015* takes stock of the current state of smallholder agriculture, identifies what actions need to be strengthened and what policy changes need to be made in order to ensure greater results in reducing food and nutrition insecurity and poverty, and in increasing the economic and social inclusion of smallholders.

5. The report is relevant and timely for three reasons. First, smallholder farmers are central to the achievement of food security objectives balanced with sustainability considerations. In light of heightened concerns about food insecurity after the 2008 food crisis and the elevated food prices since then (see figure 1), the role of smallholder farmers in achieving food security objectives needs to be better acknowledged.

Figure 1

Wheat, maize, rice and soybeans international nominal prices (US\$ per ton), 1961–2014



Source: UNCTAD secretariat from UNCTADStat.

6. Second, the report analyses constraints to the sustainable development of smallholder agriculture at the national, regional and global levels, highlights tested solutions for improving the economic conditions of smallholders and proposes new ones. In doing so, it emphasizes the need for a policy mix that addresses the specific needs of smallholders at national, regional and international levels. This approach makes the report a relevant and timely reference for policymakers and other stakeholders on smallholder issues as they prepare for the General Assembly Summit for the Adoption of the Post-2015 Development Agenda in September 2015, the World Trade Organization tenth Ministerial Conference to be held in Nairobi and the Climate Summit in Paris, both in December 2015. Third, the report is also of relevance for discussions under way in preparation for the fourteenth session of the United Nations Conference on Trade and Development in Lima in March 2016. In the following sections, the present note highlights the report's findings and key messages. It underscores the major constraints facing smallholders and provides policy recommendations to help unlock their potential contribution to sustainable commodities production and trade.

II. Findings

A. Policy neglect of smallholders

7. There has been a long-running debate on whether small- or large-scale farms are the most productive, and which of them contribute more to overall agricultural development.

⁵ See <http://data.worldbank.org/topic/agriculture-and-rural-development> (accessed 16 July 2015), and FAO, 2011, as in footnote 2.

Several studies suggest that small farms have higher land productivity than large farms by virtue of the so-called inverse relationship between farm size and productivity. These studies claim to provide evidence that smallholders have lower unit transaction costs because they operate in labour-surplus and capital-scarce rural areas. Opponents of this viewpoint counter that the samples used do not have an adequate representation of large farms to allow balanced conclusions regarding the respective productivity performances of the two farm sizes. However, agricultural policy design has not been influenced by these two contrasting views and more often than not has incorporated a bias in favour of large-scale farmers.

8. Though the overall share of foreign direct investment (FDI) in agriculture over total FDI flows remains marginal⁶, there has been an increase in the number of large land acquisitions in developing countries over the past years. Agribusiness, (sovereign) investment funds and government agencies have been acquiring long-term rights through either acquisitions or long-term leases (typically between 50 and 100 years), over large areas of land (of over 1,000 hectares in many cases).⁷ Private sector investments have been primarily driven by prospects of rising agricultural commodity prices and high returns on investments, whereas public investments have been motivated by concerns about food and energy security.

9. As part of the bias favouring large-scale farms, during the 1980s and 1990s, many countries, particularly in Africa, withdrew state support to smallholders under structural adjustment programmes which prescribed reducing the role of the State and "getting prices right". As crop marketing boards were dismantled, extension services were either abolished or weakened and input supplies (for example, fertilizer and seedlings) no longer reached smallholders, in particular because the private sector was not able to step in and fill the gap left by traditional public institutions. As a result, smallholders could not access the factors of production that were essential for helping them improve productivity. Smallholders also encountered high transaction costs that prevented them from selling even in domestic markets, thus forcing them to sell cheaply at the farm gate. In addition, globalization and market liberalization in agriculture exposed smallholders to the vagaries of international markets, especially high price volatility, as government commodity marketing boards whose role consisted of guaranteeing producer prices were abolished. In the last decade, the introduction of commodity exchanges in many regions was expected to limit the negative effect of price volatility on smallholders' incomes. However, the experience in Africa has not been encouraging due to various factors, such as their low volume of transactions and low levels of liquidity.

10. Until 2006, the benign policy neglect of smallholders was exacerbated by the poor quality of data concerning this class of farmers, resulting in a lack of understanding of their true contribution to total agricultural production and gross domestic product, and of their share in labour force participation. Available survey data on the characteristics and contributions of smallholder farmers were too restricted and hence could not be extrapolated to a wider sample of countries. The situation has partially improved since

⁶ See for example, UNCTAD, World Investment Report 2009: Transnational Corporations, Agricultural Production and Development (New York and Geneva, United Nations publication).

⁷ Data show that large scale investments are typically foreign, see, for example, K Deininger and D Byerlee, 2012, The rise of large farms in land abundant countries: Do they have a future? World Development, 40(4): 701–714; and FAO and Earthscan, 2011, The State of the World's Land and Water Resources for Food and Agriculture: Managing Systems at Risk (Rome, FAO).

2006, when FAO started undertaking an agricultural census in over 105 countries. The census shows a high proportion of smallholder farmers in countries such as Bangladesh, the Gambia, India, Malawi and Viet Nam. It has also highlighted the preponderance of women in smallholder farming, and has established a link between smallholders and poverty in developing countries. The persistence of poverty among them is due to several factors, including their limited access to credit, limited assets (including equipment) and low levels of education, especially among women farmers, for example in Burkina Faso and India.

11. Despite improved knowledge brought by new data, the dichotomy between smallholder and large-scale farming remains pronounced in four areas. First, stiff competition across countries and fragmented value chains have made it difficult for smallholders to participate in international trade. Large farms are also better than small ones in handling integration into supply chains and certification of products, which are becoming common practices in international trade. Second, there has recently been relative growth in the number of large farms, particularly in emerging economies, and these farms are becoming increasingly mechanized. Third, labour availability is reaching its limits, particularly in some emerging countries, and most probably the higher opportunity cost of relying on labour is making it difficult for small farms to survive. Fourth, the acquisition of large tracts of land by foreign investors threatens to exacerbate the marginalization of smallholders in the multilateral trading system. Indeed, large scale investment can be a win-win strategy for the investor and for the host country only when in addition to the usual benefits expected from FDI, the recipient country has sufficient safeguards in place to deal with the associated risks, including the loss of existing land rights of smallholders, negative environmental impacts and threats to their own food security.⁸

B. Limited access to inputs and output markets

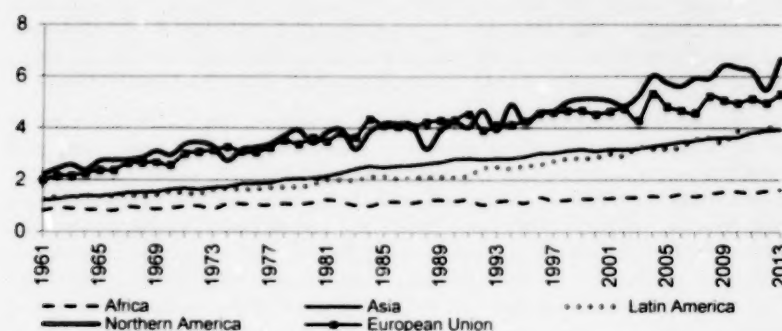
12. The extent of smallholders' participation in input and output markets partly determines their productivity and hence earnings. Farmers use a range of inputs in the production process, including seeds and fertilizers, land, labour and credit. Seed markets are usually divided into formal and informal systems. Formal systems are infrequent, as the high cost of quality seeds resulting from expensive seed certification schemes and transaction costs are beyond the financial reach of most smallholders. Few smallholders in developing countries, particularly in Africa, are able to afford fertilizers due to their high prices, unless they benefit from subsidies. This partially explains the very low levels of fertilizer use in these countries, and therefore their low productivity when assessed against the standard criteria used for measuring agricultural yield. Low fertilizer use and the lack of irrigation facilities also account for most of the large productivity differentials between developed and developing countries and between developing countries in Africa and those in Asia (see figure 2). Recent estimates show that only 4 per cent of the production area is under irrigation in sub-Saharan Africa, compared with 39 per cent in South Asia and 29 per cent in East Asia. Such a situation has prompted the International Food Policy Research Institute to term the lack of irrigation in Africa "the missing piece of Africa's agriculture puzzle".⁹ Success stories in increasing agricultural yields are not limited to Asia. Where appropriate policies exist, agricultural yields have increased both dramatically and fast as was the case of Egypt in the 1980s and 1990s.

⁸ See, for example, J von Braun and R Meinzen-Dick, 2009, "Land grabbing" by foreign investors in developing countries: Risks and opportunities, International Food Policy Research Institute Policy Brief 13 (Washington, D.C.), available at <http://www.ifpri.org/sites/default/files/publications/bp013all.pdf> (accessed 16 July 2015).

⁹ See <http://www.ifpri.org/blog/irrigating-africa> (accessed 16 July 2015).

Figure 2

Cereal yields in selected developed and developing regions, 1961–2013
(Tons per hectare)



Source: UNCTAD secretariat from FAOStat.

13. Access to land encourages smallholders to engage in long-term investments, eases their access to credit using land as collateral and allows them to generate revenues through land rental or sale. However, inefficient land markets, land tenure and land management systems have been prevalent in many developing countries. As a result, many smallholders opt for land-share tenancy, an arrangement that often excludes women farmers who face gender-related constraints, including legal and social norms that prevent them from inheriting or owning land.¹⁰

14. Gender disparities in land rights are well documented. The FAO international comparison of agricultural census data shows that less than 20 per cent of landholders are women. Estimates range from 10 per cent of landowners being women in Western, Central and Northern Africa and the Near East, to up to 30 per cent in Eastern and Southern Africa and in parts of Latin America.¹¹ These inequalities originate in national civil, family and labour codes that discriminate against women, most notably with regards to inheritance rights, regardless of equality provisions in the constitutions. Furthermore, where the law might provide adequate rights, in rural areas customary rights often take precedence. In India, for example, in communities that apply Hindu personal law, married daughters without male offspring cannot inherit. In the same vein, a study on land reforms in Rwanda¹² reveals that although women constitute the majority of the Rwandan population and labour force, before the enactment of the land reform they continued to face discrimination in access to land. The study goes on to assert that despite the existence of family law that provides for equal inheritance for both women and men, such discrimination originated from the "Rwandan culture and tradition which considered the girl child inferior to the boy, physically, intellectually and socially, and subjected her to man". Over 80 per cent of constraints to land access were said to be related to inheritance. As such, the land reform in Rwanda was historical as it allows for the names of both the

¹⁰ See, for example, reference in footnote 2.

¹¹ For further details, see <http://www.fao.org/economic/es-policybriefs/multimedia0/female-land-ownership/en/> (accessed 16 July 2015).

¹² A Kairaba and J Simons, eds., *Impact of the Land Reform on the Land Rights and Economic Poverty Reduction of the Majority Rural, Especially Women Who Depend on Land for their Livelihood: Rwanda Case Study*, Rwanda Initiative for Sustainable Development (Kigali), available at <http://siteresources.worldbank.org/INTIE/Resources/> (accessed 16 July 2015).

woman and man to appear on the land registration certificate, and finally on the land title for a family, thus unlocking access to credit for women, among many other advantages.

15. More generally, population pressure, climate change, water scarcity and recent increases in large land acquisitions have further undermined smallholders' access to land. In contrast to several countries in Asia, few countries in Africa have adopted the necessary reforms to facilitate farmers' access to land. Exceptions include Rwanda, as discussed in the preceding paragraph, where land tenancy reforms have resulted in better allocation of land and higher productivity.

16. Rural labour markets serve non-agricultural and agricultural activities, which often compete for available labour resources. These markets are generally informal and tightly tied to the seasonality of agricultural activities. They offer smallholders the opportunity to increase their incomes, diversify sources of revenue and smooth out the seasonality of agricultural incomes by engaging in non-agricultural activities. But in many countries, especially in sub-Saharan Africa, the paucity of rural labour markets and low wages imply that smallholders' own agricultural activities are their main, and sometimes only, sources of income.¹³ On the other hand, rural labour markets may also create opportunities for farmers who need to buy labour to work on their farms. Farmers decide to buy labour for a variety of reasons, including skills shortage, responding to seasonal spikes and diverting their household labour to other tasks.

17. Limited access to credit is one of the main constraints facing smallholders. In Africa, about 1 per cent of commercial lending goes to agriculture, most of it to large-scale farmers. Formal financial institutions are reluctant to provide financial services to smallholders because of their lack of collateral (for example, titled land), unstable earnings, the risky nature of farming activities and difficulties in evaluating smallholders' capacity to repay their loans. Where credit is available, interest rates are often too high and repayment terms incompatible with the terms of the investment. Also, smallholders' limited access to risk mitigation or risk insurance instruments reduces their capacity to invest in their productive assets and drives them back into subsistence farming. Thus, innovative financing mechanisms are needed to increase farmers' financial ability to invest. Weather index-based insurance¹⁴ has proved useful in helping them cope with weather-related risks, but this requires access to good meteorological data.

C. From farm gate to international markets: A series of constraints

18. Participation in well-functioning agricultural input markets can enable farmers to increase yields, and hence produce a marketable surplus that, if sold in competitive output markets, permits them to obtain higher prices and thus increase their incomes. This in turn improves their capacity to cope with risks and market instability. Better linkages with markets can induce rural populations to consider farming as a profitable, and therefore viable livelihood choice. However, whether or not smallholders are able to access larger, more lucrative national or regional markets depends on many factors, including their physical connectivity with those markets, their access to market information, and the types of products they sell, whether they are staples produced for domestic and regional markets or non-staples produced for international markets. Therefore, smallholders' participation in such markets varies across regions and countries.

19. In many countries with limited or no access to market information, in spite of the development of information and communications technologies (ICTs), many smallholders

¹³ It needs to be acknowledged that incomes from activities such as animal husbandry and some non-agricultural activities can complement farm income.

¹⁴ For details, see the *Commodity and Development Report 2015*.

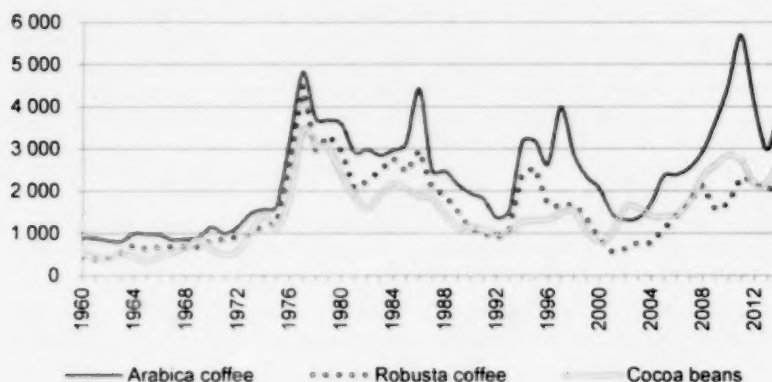
continue to sell at the farm gate or village markets, where profitability and growth potential are low. Analysis based on Uganda, for example, shows that farmers do not benefit from increases in the international coffee price. The study reveals that marketing costs such as transport, handling, storage, and processing do not increase with price. Rather, international price increases are reflected relatively rapidly in domestic prices paid by exporters and large traders, as well as to additional small, occasional traders who take advantage of farmers' ignorance about price movements to capture the price premiums that should have gone to them.

20. Urban and regional markets offer higher prices and profitability to farmers, but their participation is limited due to poor or non-existent infrastructure, shallow integration in agricultural markets at the regional level, lack of market information and difficulty in complying with quality standards that are becoming increasingly stringent as a result of tighter supermarket standards in response to the preferences of urban consumers. Farmers need support to tackle these various constraints.

21. Some smallholders do produce for highly integrated international markets for traditional cash crops such as cocoa, coffee, tea and cotton, as well as high-value products such as vegetables, fruits and flowers. These markets are important for developing countries as a major source of hard currency, employment and income for farmers, traders and exporters. In several cases of diversification, smallholders have engaged in contract farming relationships with transnational corporations. This has provided additional opportunities to some smallholders for increased incomes and poverty reduction, in particular because the value per unit or weight of these products is much higher than that of traditional tropical products. However, the number of farmers taking advantage of these opportunities is small relative to the total number of smallholders. Moreover, not only are these diversification schemes associated with increasingly stringent safety standards and other non-tariff barriers, they have also resulted in competition between the new crops and traditional food crops, sometimes threatening the very objective of food security. In the same vein, various factors continue to influence smallholders' participation in value chains, including high safety standards, market power imbalance and reduced welfare due to price volatility on international markets (see figure 3).

Figure 3

Coffee, cocoa and wheat international nominal prices, 1961–2014
(US\$ per ton)



Source: UNCTAD secretariat from UNCTADStat.

22. Moreover, as “price takers”, smallholders are weak participants in commodity markets. They typically buy small quantities of fertilizers, are remote and need access to trade credit. These characteristics make them unattractive to traditional private sector providers. Considering these constraints, intermediaries and exporters capture a large share of the international prices of the exported commodities. Intermediaries play an important role in linking farmers with markets by providing them with services such as marketing, inputs and finance through contractual arrangements, and also create economies of scale by collecting small quantities from individual smallholders and selling large quantities to exporters. In several instances, some of them have been associated with opportunistic behaviour that is detrimental to the development of smallholder farming. In such cases, strong farmers’ organizations would not only allow bulking, but would also strengthen their negotiating power to defend smallholders’ interests, including demanding higher prices for their crops. In the United Republic of Tanzania, for example, improved cooperative marketing of agricultural products such as coffee has meant that cooperative members can afford fees for the education of their children.¹⁵ The experience of the Agriculture Society of Trinidad and Tobago, an umbrella organization representing the interests of 86 producer organizations and 12,000 individual farmers also shows the extent to which farmers’ associations could shape policy in favour of a sustainable agriculture sector, including price negotiations.¹⁶

23. The *Commodities and Development Report 2015* assesses the extent to which smallholders are integrated into some international commodity markets. The results show that shocks to international prices are transmitted to domestic prices. Using trade liberalization as an example, the analysis provides additional evidence that the trade and economic reforms adopted in the sample countries in the 1980s and 1990s increased the vulnerability of small producers to shocks in international markets.

D. Productivity, technology and infrastructure-related constraints

24. Though not all smallholders have the potential to become profitable business entities, to be sustainable, smallholdings should be viewed as business entities that pursue profit with social stability and environmental sustainability as cornerstones. The process of commercialization has the potential to raise household incomes and thereby improve smallholder welfare. However, the transition from subsistence to commercial farming could have a negative impact on the environment.

25. Two factors determine the sustainability of smallholder farming. The first is productivity, which depends on farming technology, extension services, physical infrastructure and human capital. For many years, neither agricultural technologies nor research and development were adapted to smallholder farming requirements, as they were developed with the aim of increasing yields on large and medium-sized farms. This refers especially to technologies emerging from profit-oriented research and development activities. With some exceptions, even public research and development activities have generally failed to develop technologies adapted to smallholders’ needs and contexts. Public funding of agricultural research has not only been very low, but it has also tended to

¹⁵ See <https://sustainabledevelopment.un.org/content/documents/1247ilo.pdf> (accessed 20 July 2015). In addition, recognizing the essential role of agricultural cooperatives that “are efficient and equitable (that is, inclusive and gender-sensitive)” as agents of change, FAO has included producer organizations as strategic partners in the implementation of its Strategic Framework 2010–2019. Sources: <http://www.un.org/esa/socdev/documents/2014/coopsegm/McInerney.pdf> (accessed 20 July 2015).

¹⁶ UNCTAD, 2013, Report of the Global Commodities Forum: Recommitting to commodity sector development as an engine of economic growth and poverty (UNCTAD/SUC/2013/4).

neglect the needs of smallholders, even in countries where they dominate the agricultural landscape. The result has been a stagnation of smallholder agriculture in many low-income developing countries, particularly in Africa, as illustrated by the very low rates of productivity.

26. In addition, over the past two decades, public extension systems in many developing countries have been in decline, and, as discussed earlier, the private sector has failed to meet the demands of low-income producers because many of the needs of smallholders cannot be met by markets. In Africa, for example, with the dismantling of commodity marketing boards, the privatization of agricultural marketing and the dramatic reduction of agriculture budgets, the provision of extension services has drastically declined. Even where these services are provided, they often concentrate on major cereals and export commodities and tend to focus on increasing farm production while neglecting important aspects such as marketing and sustainable-agriculture approaches. Also, the provision of these services is generally biased in favour of men even though female farmers are known to play a major role in smallholder agriculture, reflecting existing inequalities in the treatment of men and women in society. As already observed, such bias generally results from existing inequalities in the treatment of men and women.

27. Finally, there have been insufficient investments in rural infrastructure such as roads and irrigation facilities despite their important role in increasing productivity. Although estimates appear to have been exaggerated, according to recent research, post-harvest losses have also been an important leakage of marketable production.

E. Constraints related to the business environment

28. The second factor that determines the sustainability of smallholder farms as business entities is business facilitation. The policy bias that benefits large-scale farming also translates into policies to attract foreign direct investment that do not include safeguards in favour of smallholders. Analysis by UNCTAD of FDI trends in 2013 showed that more than half of new liberalization, promotion or facilitation measures related to the provision of investment incentives by governmental investment promotion agencies as a policy instrument for attracting investment – despite an increase in criticisms that such incentives “are economically inefficient and lead to misallocations of public funds”. Agriculture was among the top three target industries of investment promotion agencies, whereas environmental protection and development of disadvantaged regions do not rank highly in their promotion strategies.¹⁷

29. Moreover, though the central role played by smallholders in investment is generally acknowledged, potential conflicts that may arise from FDI in agriculture and investment law have also been underlined by investment policy experts. A World Bank and UNCTAD study based on a field survey on the agricultural operations at 39 large-scale, mature agribusiness investments in sub-Saharan Africa and Southeast Asia shows that these investments generally had more positive effects than negative ones. Positive effects included job creation, with a ratio of an average of one job for every 20 hectares of land and thousands of farmers benefiting from contract farming. Negative effects were mostly linked to land rights and the associated resettlement being seldom sufficiently consultative, inclusive, or adequately compensated. In addition, assessment of the environmental impact was generally considered inadequate and non-transparent.¹⁸

¹⁷ UNCTAD, 2014, World Investment Report. Investing in the Sustainable Development Goals: An Action Plan (New York and Geneva, United Nations publication).

¹⁸ See World Bank and UNCTAD, 2014, The Practice of Responsible Investment Principles in Larger Scale Agricultural Investments: Implications for Corporate Performance and Impact on Local Communities, World Bank report No. 86175-GLB; and also Anne van Aaken's post: Large scale

30. Beyond investment incentives, business facilitation is defined as the range of assistance in the identification and seizing of opportunities, as well as the protection of production and income. They include the provision of access to finance, risk-management tools, market information and market access. Given smallholders' limited access to the formal financial sector, there has been an increasing reliance on other innovative financing mechanisms such as warehouse receipt financing and factoring. Where existent, these have played a key role in addressing smallholders' cash needs at harvest time and have helped them seize the opportunities of seasonal arbitrage and profit-making. Factoring could also help smallholders overcome the problem of delayed payments by high-end domestic customers, and assist them in integrating into local supply chains. New instruments, such as weather index-based insurance, have also been effective in dealing with production risks, while contract farming has been used to hedge against price risks.

31. Thanks to the rapid development of ICTs in developing countries during the past decade, smallholders in rural areas now have access to information at very low cost. Mobile phones reduce the costs of information searching, provide farmers with the opportunity to make spatial and temporal arbitrage, and strengthen their knowledge of market prices, even with respect to distant markets. Mobile phones have also contributed to significantly easing the traditional way of delivering extension services and have increased financial inclusion through the use of so-called "mobile money". This application facilitates rural populations' access to innovative payment systems and basic financial services, making them more efficient. Smallholders could fully benefit from mobile-enabled services in their business environment through the establishment of public-private partnerships.

F. Smallholder farmers as the guardians of environmental sustainability

32. The close relationship between farming and environmental sustainability suggests that smallholders need to include environmental and ecological considerations in their investment decisions. Traditionally, due to their relatively minor use of chemicals in farming compared to larger farms, smallholders are considered the guardians of ecological and environmental sustainability at the local level. Smallholders also typically rely on traditional knowledge when predicting the weather. However, doing so has become increasingly difficult due to climate change as seasons, floods, and storms follow a more irregular pattern and the frequency of water stress, soil erosion, and infestations has increased. In addition to the evidence provided by agricultural institutions, the reality of the impact of climate change on agriculture and the importance of local community-based knowledge have both been substantiated in the Intergovernmental Panel on Climate Change (IPCC) scientific reports.¹⁹ Recent findings of the IPCC on climate change and agriculture based on the contribution of working group I to the fifth assessment report of the IPCC show that climate change and extreme weather events will have greater impacts on sectors linked to natural production, such as agriculture and forestry. Clear links have also been established between the ability of the agricultural systems to adapt to these impacts and potential consequences on food security. The IPCC special report further asserts that there is "high confidence" that changes in climate have the potential to seriously affect water management systems.

agricultural investments and international investment law, available at <http://investmentpolicyhub.unctad.org/Blog/Index/22> (accessed 20 July 2015).

¹⁹ See IPCC special report, 2012, Summary for policymakers, in *Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation* (Cambridge, Cambridge University Press); and IPCC, 2013, *Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* (Cambridge, Cambridge University Press).

33. In the light of these findings, it is critical to reward smallholders who invest in environmentally friendly farming practices. This is particularly relevant when such practices conflict with profit maximization. Clearly, for many smallholder farms to be productive in the context of sub-Saharan Africa, there is a need to use fertilizers appropriately, both in the identification of the right fertilizers to be used as well as in the right quantities. In doing so, special care should be devoted to not replicating the experience of some countries in Asia and Europe where overuse of fertilizers has resulted in pollution and degradation of natural resources. China's agricultural production system, for example, has had negative impacts on the environment and on the pollution of natural resources.²⁰ According to estimates, agriculture accounts for more than 15 per cent of the country's total greenhouse gas emissions and nearly 90 per cent of nitrous oxide emissions, largely due to excessive fertilizer use.²¹ To combat low fertilizer use efficiency, the Government is promoting technology aimed at calibrating fertilizer dosages according to the characteristics of soils.

34. Public awareness of the environmental impacts of agricultural activities has created new opportunities and incentives for smallholders to invest in higher quality and environmentally and socially responsible products in organic agriculture. Various studies have shown that, in addition to the positive impact on the environment, organic production can be as productive as agriculture based on the use of synthetic fertilizers, and in many cases organic produce fetches higher prices. In addition, it should also be acknowledged that there is a niche market for organic products. The main constraint on tapping this opportunity is the high costs associated with organic certification. Reducing those costs would therefore provide opportunities to smallholders seeking to benefit from this profitable niche market.

III. Policy recommendations

35. The *Commodities and Development Report 2015* identifies cases where strong leadership has led to positive outcomes in tackling the constraints to the development of smallholder farming. It includes highlights of pragmatic and inclusive policies geared to the needs of smallholders. The report also contends that the number of good practices and success stories of policies that have benefited smallholders demonstrates that change is possible and positive results can be achieved where there is strong political will. The report then goes further to underline the need for policy clarity and strong leadership at the highest levels – domestic, regional and international.

36. In addition to the tested solutions and good practices identified in many countries, the report offers a policy framework that combines measures at the national, regional and international levels and an accompanying plan of action for smallholders that builds on UNCTAD's integrated approach to trade, finance, investment and technology.

A. Strong leadership and an enabling environment at the national level

37. The *Commodity and Development Report 2015* states that there cannot be sustainable development of smallholder farming without a strong enabling national environment. Such an environment should include sound and predictable economic

²⁰ See X Li, L Tang, X Xu, G Qi and H Wang, 2013, What can Africa learn from China's experience in agricultural development? *IDS Bulletin*, 44 (4): 31–41.

²¹ See J Wang, J Huang and S Rozelle, 2010, Climate change and China's agricultural sector: An overview of impacts, adaptation and mitigation, Issue brief No. 5, International Centre for Trade and Sustainable Development and International Food and Agricultural Trade Policy Council (Geneva and Washington, D.C.).

policies, a stable macroeconomic framework supportive of agricultural development, strong and effective institutions, adequate infrastructure and gender-awareness throughout. Overcoming the enduring challenges confronting small-scale farming requires implementing policy recommendations that have been made repeatedly in other contexts. When creating an enabling environment for smallholders, a special emphasis should be put on ensuring access to financing tools specifically adapted to smallholdings. Public support should be available for the development of innovative financing tools customized to the needs of small and vulnerable agribusinesses. Experience shows that public funds are also necessary for the provision of financial and business training. Such funds should be made available through special programmes housed at state development banks. Similarly, as with other sectors, state public investment funds could also be used to support innovative projects.²² With regard to the specific issue of better access to finance, governments should promote greater domestic resource mobilization and aim to allocate a higher share of national savings to their agricultural sector.

38. Although external finance plays a key role in developing national agricultural sectors in developing countries, an agricultural development strategy that is solely dependent on foreign resources is likely to be unsustainable, given the high volatility of external financial flows due to the large investment gaps remaining for the sector²³ as well as the reality of unfulfilled aid commitments. Rather, countries should also develop the local agricultural sector by increasing domestic resources to be allocated to it. Furthermore, as smallholder farmers are the main providers of food in most sub-Saharan countries and in Asia, devoting resources to their survival and their development should be justified.

39. Enabling institutions should also include farmers' organizations as they enable individual smallholders to aggregate their produce and increase their bargaining power in their interactions with input and output markets. Also, strong farmers' associations would be able to influence policy in their favour through their voting power. Governments should bolster these associations in every way possible, including financially, particularly during their early stages of development. As for well-established associations, public support should focus on their professionalization in order to help them manage the increasing complexities of trade requirements at the international level.

Increase resources for science, technology and information and communications technologies tailored to the needs of smallholders

40. Science, technology and ICTs are the cornerstones of improvements in agricultural practices. Experience shows that advances in these areas depend on a combination of public and private investments steered by well-defined and well-executed public policy. As with all initiatives in support of smallholders, approaches to innovation policies should be inclusive and participatory.

41. Technology policy should aim to increase smallholders' productivity while at the same time fulfilling environmental sustainability requirements. In addition, the links between increasingly frequent natural disasters and climate change strengthen the case for investing in climate-smart and resilient agriculture, including the development of resilient seeds and agricultural methods. In the ICT sector, governments could implement ICT-related actions specifically geared to the development of smallholder farming.

²² For a typology of state investment banks see M Mazzucato and C Penna, 2014, *Beyond market failures: The market shaping and creating role of state investment banks in the economy*, Science Policy Research Unit working paper, University of Sussex.

²³ Total investment gaps for agriculture and food security for all developing countries are estimated at about US\$260 billion. See UNCTAD, 2014, *World Investment Report. Investing in the Sustainable Development Goals: An Action Plan* (New York and Geneva, United Nations publication).

Establish a business-friendly environment for smallholders and make small-scale farming attractive to the younger generation

42. Leadership at the highest level is necessary for the State to promote and support investments in all areas relevant to the development of smallholder farming. Investment policymaking should underscore the potentially strong effects that investments targeting smallholders could have on sustainable agricultural production, food and nutrition security, job creation, poverty reduction and inclusiveness. Acknowledging that "Foreign ownership or user titles over agricultural land is particularly sensitive in most countries, in particular those with large rural populations and where food security is an issue"²⁴ UNCTAD's Investment Policy Framework for Sustainable Development stipulates that "Governments should pay particular care in putting in place and enforcing regulations to protect the long-term national interest and not compromise it for short-term gains by special interest groups".

43. Proposals include establishing safeguards to provide a safety net to protect the interests of local farmers at two levels: in investment contracts of the host state; and at the public international law level, in the investment treaties. Though the report advocates for contractual issues in agricultural investments to give due consideration to the interests of smallholders, it is beyond its scope to lay out the specifics of the associated judiciary mechanisms.²⁵

44. Governments should also facilitate investments in other segments of the value chain, with particular incentives provided to inclusive business models that recognize the specificities of small actors throughout the value chain. In doing so, the usual components for the development of small and medium-sized enterprises, such as training and the provision of dedicated resources, should be adopted, with specific incentives for small-scale agribusinesses, keeping in mind the country's characteristics.

45. For smallholder farming to remain a sustainable option for making a living, there is also the need for a new set of policies and actions that make it attractive to the growing ranks of youth. Such policies should include developing regulatory tools, including start-up funds that specifically support entrepreneurial initiatives by young people in agriculture and connected sectors.

B. Prioritize food security objectives at the regional level

46. Achieving the goal of a world without hunger requires that regional economic communities give high priority to tackling food security and smallholder farming issues. The increasing number of regional cooperation agreements being concluded offers such an opportunity. In these intergovernmental forums, member countries can initiate actions based on common concerns as well as create opportunities built on their complementarities. Existing efforts at regional integration should be accelerated to facilitate regional trade in food products. In particular, members of regional economic communities could cooperate in the following arenas: developing much-needed infrastructure and storage facilities, including cold chains; establishing regional financial facilities for agricultural entrepreneurial activities; strengthening or investing in intraregional and interregional centres for research and technology transfer; targeting smallholders; supporting specialization in agricultural value chains within the regional bloc based on each member country's comparative advantage; establishing investment promotion measures for market-seeking intraregional foreign direct investment in agricultural value chains through

²⁴ See UNCTAD, 2012, Investment policy framework for sustainable development, available at http://unctad.org/en/PublicationsLibrary/daepcb2012d5_en.pdf, p. 33 (accessed 21 July 2015).

²⁵ Ibid.

contractual arrangements involving smallholders; and establishing public-private partnerships to scale up non-State initiatives with a proven track record of positive impacts on smallholders.

47. Furthermore, eliminating constraints on the development of smallholder farming will require the combined efforts of different actors. The achievements of successful initiatives, such as the Alliance for a Green Revolution in Africa, involving development agencies, non-governmental organizations and philanthropic organizations should be well publicized, encouraged and scaled up. Most of these initiatives have a locally oriented, programmatic approach to develop locally adapted solutions to the demands of smallholders.

48. And finally, the immediate and medium-term impacts of the 2008 food crisis on vulnerable groups underscore the need for supranational grain reserves. UNCTAD (2012)²⁶ provides a detailed review of food reserve initiatives and their potential to improve food security. The review shows that food reserves in developed countries as well as in the developing world created after 1945, with price stabilization objectives, have failed within a decade or two of their creation. Rather, available evidence shows that it is the reserve programmes that have been established as emergency tools that have shown higher survival rates in the modern era. Accordingly, where some countries are still prone to recurrent food crises, their regional groupings should establish regional grain reserves as emergency food stocks. Experiences across Asia and Latin America show that the management of such stocks is most effective at the regional level. Although such reserves usually include physical stocks earmarked at the national level, their exact nature would depend on regional and country specificities with regard to the scale and nature of food shortages.

C. Policies and measures at the international level

49. At the international level, the *Commodities and Development Report 2015* advocates tilting the playing field in favour of smallholders in the multilateral trading system. Specific recommendations in this area are as follows.

Establish an enabling environment at the international level

50. The report shows that smallholders produce mainly for domestic and regional markets, but very little for international markets. Various constraints, in the international trading system, such as high health, safety and quality standards, price instability and imbalances in market power, limit their ability to participate more fully in international trade. Addressing those constraints through training and capacity-building would enable their greater participation, thereby ensuring that prosperity is shared across all countries and their people. In addition, and perhaps most importantly, implementing recommendations at the international level will require strengthening multi-stakeholder partnerships and coalitions in favour of smallholders in multiple forums. Development partners should join forces in advocating for greater attention to be paid to the needs of smallholders and the promotion of sustainable commodity production. Forthcoming climate and trade negotiations should constitute the first demonstrations of such coalitions.

Ensure that outcomes of the Doha Round benefit smallholders, promote food security and support the specific case of smallholder cotton producers

51. A favourable outcome on food security in the ongoing World Trade Organization negotiations under the Doha Round is needed to support the objective of Millennium

²⁶ UNCTAD, 2012, *Commodities and Development Report 2012: Perennial Problems, New Challenges and Evolving Perspectives* (New York and Geneva, United Nations publication).

Development Goal 1 and that of its successor in the sustainable development goals. As the world gears up to committing to the sustainable development goals, which will include ending hunger for all, members of the World Trade Organization should contribute to this effect. Various high-level events due to take place towards the end of 2015 provide an opportunity to make strides in improving the livelihoods of smallholder farming. Similarly, cotton represents one of the key tests of the capacity of the Doha Round to deliver on its promises of boosting development. It should therefore be quickly resolved in the post-Bali negotiations. In addition to the trade and development aspects highlighted at the World Trade Organization, more resources should also be devoted to productivity, marketing and value addition, along the lines enunciated in the Pan African Cotton Road Map.

Reform the regulation of international commodity markets with a focus on the well-being of smallholders

52. The international community needs to consider collectively devising mechanisms for the better functioning of international commodity markets, with a special emphasis on bolstering the development of smallholder farming. Research by UNCTAD has underlined the role of the financialization of commodity markets and "the hundreds of billions of dollars of bets placed on expectations" as the driving forces behind increased commodity price volatility. It has underscored that as the volumes of exchange-traded derivatives on commodity markets became 20 to 30 times larger than physical production, the influence of financial markets has transformed real markets into financial ones.²⁷ UNCTAD has repeatedly called for strong and prompt policy and regulatory responses in the financial markets, coupled with measures on physical markets. Some of these policy proposals are of direct relevance to smallholders, namely the call for increasing transparency and for providing better and more timely data on fundamentals in physical markets.²⁸

Ensure that development finance and climate finance for the agricultural sector primarily target small-scale farming

53. Donor countries should increase their official development assistance to agriculture with a special focus on smallholders. In addition, research and development specific to sustainable smallholder farming should benefit from more accessible innovative financing mechanisms at the international level as well funds from regional and international development banks. Agriculture, and particularly smallholder farming, should also have its rightful place in future climate negotiations.

54. With regards to responses to the likely impact of climate change and extreme weather events on agriculture, as described in paragraph 32, the IPCC special report underscores that opportunities in creating synergies in international finance for disaster risk management and adaptation to climate change should be seized, as these have not yet been fully realized. It also notes that technology transfer and cooperation to advance disaster risk reduction and climate change adaptation, though important, has been insufficient. It states that there is room for improved integration across scales from international to local as for now efforts at the international level do not necessarily lead to substantive and rapid results at the local level.

²⁷ UNCTAD, 2012, Don't blame the physical markets: Financialization is the root cause of oil and commodity price volatility, Policy Brief No 25, September 2012.

²⁸ UNCTAD, 2011, Trade and Development Report 2011. Post-crisis Policy Challenges in the World Economy (New York and Geneva, United Nations publication); and UNCTAD, 2012, Trade and Development Report 2012: Policies for Inclusive and Balanced Growth, (New York and Geneva, United Nations publication).

55. The IPCC special report states that "Integration of local knowledge with additional scientific and technical knowledge can improve disaster risk reduction and climate change adaptation". It highlights that local populations' documentation of their experiences with the changing climate, particularly extreme weather events, can uncover existing capacity within the community and important current shortcomings. In this regard, the special report further adds that improvements in the availability of human and financial capital and of disaster risk and climate information customized for local stakeholders can enhance community-based adaptation.

Align policies, pledges and actions at international, regional and national levels

56. The acceleration and sustainability of progress in achieving food security and sustainable and inclusive development requires that three agendas be aligned: the food security agenda, the nutrition agenda and the agriculture agenda.²⁰

57. The same requirement for alignment applies to policies belonging to the technology and investment fields. As for development aid, donors and developing-country governments should honour their commitments made in the Paris Declaration for Aid Effectiveness.

Establish mechanisms for greater accountability and monitoring

58. Achieving the sustainable development goals will require moving beyond business as usual, including with regards to accountability and monitoring. Mechanisms for monitoring of progress on key commitments related to smallholders are urgently needed. The accountability framework should include governments, farmers' organizations, civil society organizations, and the private sector, along value chains and development partners, including relevant international organizations.

²⁰ For details, see <http://www.un.org/en/zerohunger/challenge.shtml> (accessed 20 July 2015).

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Items 8 (a) and (b) of the provisional agenda

**Note verbale dated 15 September 2015 to the Secretary-
General of the United Nations Conference on Trade and
Development from the Permanent Mission of Peru to the
international organizations in Geneva**

The Permanent Mission of Peru to the international organizations in Geneva presents its compliments to the secretariat of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) and has the honour to enclose herewith Note No. 1-M-N/101, addressed to the Secretary-General of UNCTAD, on the subject of the fourteenth session of UNCTAD.

The Permanent Mission of Peru would appreciate having the above-mentioned note translated into all the official languages of the United Nations and circulated among the States members of UNCTAD as soon as possible. It would also appreciate having the note included as a working document under items 8 (a) and (b) of the agenda for the sixty-second session of the Trade and Development Board.

The Permanent Mission of Peru to the international organizations in Geneva takes this opportunity to extend the assurances of its highest consideration to the secretariat of the Trade and Development Board of UNCTAD.

Geneva, 15 September 2015

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The Permanent Mission of Peru to the international organizations in Geneva presents its compliments to the Office of the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) and has the honour to refer to the fourteenth session of UNCTAD, which was scheduled to take place from 14 to 18 March 2016 in Lima, Peru.

In this regard, the Permanent Mission of Peru regrets to inform the Office of the Secretary-General of UNCTAD that, owing to circumstances of force majeure, it will not be possible to hold the fourteenth session of UNCTAD in Peru as planned and as desired by the Government of Peru. The difficult decision to refrain from hosting the fourteenth session of UNCTAD has been taken due to an exceptional and unforeseen set of circumstances, namely the severe impact which El Niño is predicted, based on hard scientific evidence, to have in early 2016.

The impact of this phenomenon has been duly assessed by the Government of Peru in the light of its commitments with the Conference and, in view of the responsibilities that derive from those commitments, the Government has made every effort to find a way to honour its offer to serve as the host country for the fourteenth session. Nevertheless, the forecasts of the impact of this extraordinary El Niño event have shifted from "moderate" to "severe" in the space of just a few months, and the Government of Peru has therefore been obliged to take all precautions within its power as a matter of urgency in order to shield the population's health, the economy and the environment from this event's negative effects.

The severe impacts that natural events can have on Peru are attested to by the similar events that occurred during the southern-hemisphere summers of 1982-1983 and 1997-1998. The consequences of those phenomena for the economy, the country's infrastructure and its population's health were devastating. The 1982-1983 event occasioned US\$ 3.283 billion in damage, affected the lives of 1,267,720 persons, with 587,120 of them being left homeless, wiped out crops and communication lines and seriously damaged health-care facilities, schools and other buildings. The 1997-1998 El Niño event affected 23 of the country's 24 departments, caused an estimated US\$ 3.5 billion in damage and the loss of some 30 hydropower plants, destroyed over 200 bridges, 42,000 homes and 6,000 km of roads, ruined 73,000 ha of crops and left a range of diseases and epidemics in its wake.

In view of these experiences, the Government of Peru finds it necessary to act promptly to meet its responsibilities in preparing for an El Niño event that is predicted to have a more severe impact than any other such event has had in the past century.

This drastic turn of events makes it impossible to ensure that the country would be able to host an international conference as large and as important as the fourteenth session of UNCTAD. The Government of Peru is therefore obliged to take this unavoidable decision in order to ensure that the session can proceed smoothly in another location. The Government of Peru deeply regrets any inconvenience that this urgent and exceptional decision may cause and appeals to the States members of the Conference and to the Secretariat for their understanding.

The Permanent Mission of Peru to the international organizations in Geneva takes this opportunity to extend the assurances of its highest consideration to the Office of the Secretary-General of the United Nations Conference on Trade and Development.